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NEW APPLICATION



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BEFORE THE ARIZONA CORPORATION COMMISSION ARIZONA Corporation Commission

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IN THE MATTER OF THE APPLICATION OF)
TUCSON ELECTRIC POWER COMPANY FOR)
APPROVAL OF ITS 2012 RENEWABLE)
ENERGY STANDARD IMPLEMENTATION)
PLAN AND DISTRIBUTED ENERGY)
ADMINISTRATIVE PLAN AND REQUEST FOR)
RESET OF RENEWABLE ENERGY ADJUSTOR)

DOCKET NO. E-01933A-11-_____
E-01933A-11-0269

APPLICATION

Tucson Electric Power Company ("TEP" or the "Company"), through undersigned counsel, hereby submits its 2012 Renewable Energy Standard ("RES") Implementation Plan (the "Plan") for Arizona Corporation Commission ("Commission") approval, in compliance with Arizona Administrative Code R14-2-1801 *et. seq.*

TEP's Plan is designed to achieve 2012 RES compliance as cost effectively as possible. The 2012 Plan incorporates the renewable energy resources the Company intends to add through 2016, the programs the Company plans to implement as well as previously approved programs, the amounts budgeted for each program, and the customer funding required under the Plan. The estimated cost for 2012 RES related projects and programs is \$44 million. At this time, TEP proposes to recover approximately \$39.1 million for 2012 through the RES tariff, \$4.9 million less than the overall budget as a result of applying carryover funds from 2010 to the 2012 budget. In order to implement this Plan, TEP requests approval of its 2012 RES surcharge of \$0.0077 per kWh.

TEP remains solidly committed to the RES and its Plan provides for renewable generation in excess of the 2012 compliance requirement (or 332,304 megawatt hours). The Company has entered into agreements with developers for the construction of renewable generation and is moving forward with plans to construct its own renewable generation. Moreover, the ongoing

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1 research and development of renewable energy generation in Arizona is critical to furthering the
2 goals of the RES, and TEP continues to participate in these projects.

3 TEP believes that its Plan is a realistic and cost-effective strategy for complying with the
4 RES requirements and provides the Commission an important opportunity to foster renewable
5 generation for the benefit of the Company's customers. Therefore, TEP requests that the
6 Commission:

- 7 1. Approve TEP's 2012 Renewable Energy Implementation Plan;
- 8 2. Find that the Plan is in the public interest, including its budget of \$44 million, the
9 Bright Tucson Solar Buildout Plan, proposed modifications to TEP's Distributed
10 Generation Incentive Program, the proposed Renewable Energy Standard Adjustor
11 Rate Schedule and other elements of the Plan; and
- 12 3. Find that the proposed RES surcharge of \$0.0077 per kWh is just and reasonable.

13 RESPECTFULLY SUBMITTED this 1st day of July 2011.

14 TUCSON ELECTRIC POWER COMPANY

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1 Original and 13 copies of the foregoing
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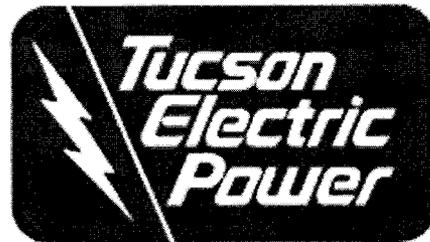
7 Copies of the foregoing hand-delivered/mailed
8 this 1st day of July 2011 to the following:

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A UniSource Energy Company

Tucson Electric Power Company

**2012 Renewable Energy Standard
Implementation Plan**

TABLE OF CONTENTS

| | | |
|------|--|----|
| I. | Executive Summary | 1 |
| II. | 2012 TEP RES Implementation Plan Components | 2 |
| | A. Utility Scale Renewable Generation (existing and purchased) | 2 |
| | B. Bright Tucson Solar Buildout Plan..... | 5 |
| | C. Bright Tucson Community Solar..... | 7 |
| | D. Bright Roofs Program | 7 |
| | E. Distributed Generation Incentive Programs | 8 |
| | i. Renewable Energy Credit Purchase Program..... | 8 |
| | ii. School Vocational Program..... | 10 |
| | F. Market Cost of Comparable Conventional Generation..... | 10 |
| III. | The Plan Budget | 11 |
| IV. | The 2012 RES Tariff..... | 11 |
| V. | Research and Development | 12 |
| | A. AZRise..... | 13 |
| | B. Irvington/Sundt Test Site Plan..... | 13 |
| | C. Electric Power Research Institute Plan and Transmission Variable Generation Integration Study..... | 14 |
| | D. Compliance with Decision No. 72033..... | 14 |

ATTACHED EXHIBITS

- Exhibit 1 Energy and Demand by Technology Forecast
- Exhibit 2 RES Budget
- Exhibit 2A RES Budget with Reduced Residential Up-Front Incentives
- Exhibit 3 Definition of Market Cost of Comparable Conventional Generation
- Exhibit 4 Above Market Cost of Comparable Conventional Generation by Technology
(Confidential)
- Exhibit 5 Renewable Energy Credit Purchase Program
- Exhibit 6 REST – TS1 Renewable Energy Standard Tariff
- Exhibit 7 REST – TS2 Renewable Energy Standard Tariff (Customer Self-Directed Renewable
Energy Option)
- Exhibit 8 Research and Development Projects

I. EXECUTIVE SUMMARY

Tucson Electric Power Company ("TEP" or "Company") has prepared its 2012 Implementation Plan ("Plan") in compliance with the Arizona Corporation Commission's ("Commission") Renewable Energy Standard ("RES") rules. TEP is committed to reaching the RES Renewable Energy Requirements for 2012 and beyond, and the Plan sets forth the Company's cost-effective strategy for meeting its RES requirements. The key components of the Plan include the renewable energy resources the Company intends to add through 2016, the programs the Company plans to implement, the amounts budgeted for each program and the customer funding and related RES under the Plan. TEP requests that the Commission approve the steps outlined in its Plan, and deem the requested budgeted amounts and resulting customer charges as just and reasonable as they are necessary in order for TEP to comply with the RES rules.

Pursuant to Arizona Administrative Code Rule 14-2-1801, *et seq.*, TEP must obtain 3.5% of its 2012 annual retail sales from renewable resources, 30% of which must come from Distributed Generation ("DG"). In order to meet these requirements, TEP will utilize existing utility scale renewable generation and credits, Purchase Power Agreements ("PPA") with renewable developers, utility-owned renewable generation, and DG incentive programs. The resulting renewable portfolio will include solar, wind, and biogas projects.

TEP's Plan is designed to achieve 2012 RES compliance as cost effectively as possible. The estimated cost for 2012 RES related projects and programs is \$44 million. Under the proposed incentive levels (which have been modified from the 2011 Plan) and anticipated renewable generation requirements, this amount is expected to remain relatively flat through 2016, with a five year total of \$206 million. RES funding is necessary to cover the cost of utility scale renewable generation, incentive payments for distributed generation resources, marketing expenses, program implementation, and administration costs. At this time TEP proposes to recover approximately \$39.1 million for 2012 through the RES tariff, \$4.9 million less than the

overall budget as a result of applying carryover funds from 2010 to the 2012 budget. This recovery includes a residential budget of \$14.3 million (as ordered in Decision No. 72033 (December 10, 2010)), however only \$12.6 million is required to meet the 2012 compliance target.

TEP believes that its Plan is a realistic and cost-effective strategy for complying with the RES requirements and provides the Commission an important opportunity to foster renewable generation for the benefit of the Company's customers. Therefore, TEP requests that the Commission approve the Plan and find that it is just and reasonable and in the public interest.

II. TEP 2012 IMPLEMENTATION PLAN COMPONENTS

TEP's total renewable generation requirement for 2012 is 3.5% of retail sales (or 332,304 megawatt hours ("MWh")). The RES targets two resource categories, utility-scale generation and DG. TEP intends to expand its utility-scale generation portfolio and enhance its Bright Tucson programs. With respect to DG, TEP proposes to modify its Renewable Energy Credit Purchase Program and continue its successful School Vocational Program.

A. Utility-Scale Renewable Generation

TEP will meet its 2012 utility-scale requirement with an anticipated renewable generation capacity of 139.6 megawatts ("MW") AC by the end of 2012. Of that capacity, 119.6 MW (AC) will come from renewable PPAs currently operating or with anticipated completion dates in 2012. The remaining 20 MW (AC) will come from TEP-owned renewable facilities.

The combination of utility owned generation facilities and PPAs should allow TEP to exceed its renewable energy requirements for the next five years. Chart 1 depicts TEP's utility-scale target and how TEP will exceed that requirement through 2017, if all of the current projects come to fruition.

Chart 1. Renewable Energy Standard Targets

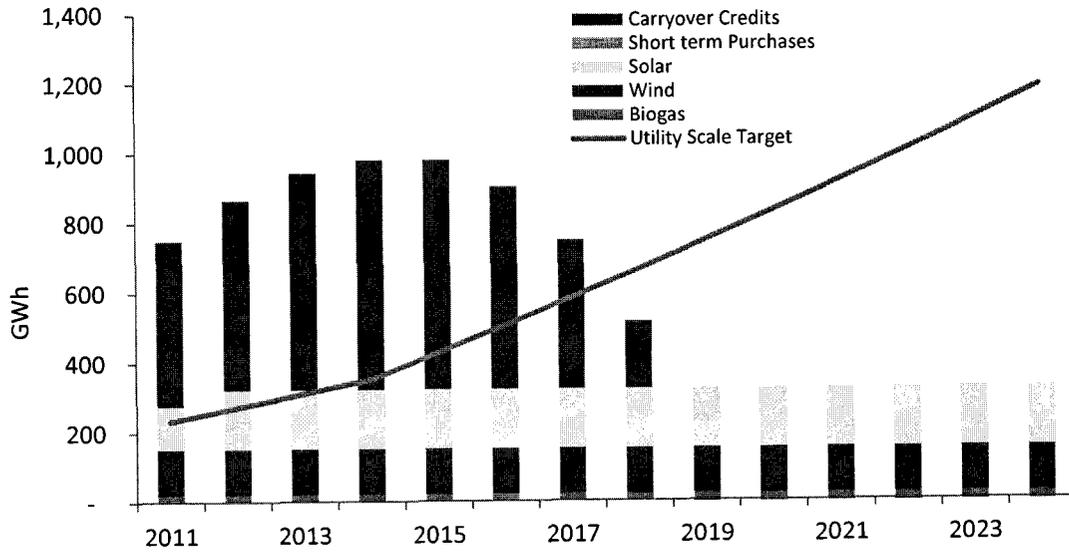


Table 1 depicts TEP's utility-scale projects. The projects are separated by those in existence and those planned for the future.

Table 1. Utility Scale Generation

| Existing Renewable Generation | | | | | |
|---|-----------------------------|-----------------------|-------------------|--------------------------------------|----------------------|
| Project | Capacity MW (AC) | Annual MWh | Technology | Expected In- Service Date | TEP Owned |
| Biogas - Sundt | 4 | 19,375 | Biogas | Operational | Yes |
| SGS Solar | 4.6 | 8,500 | Fixed PV | Operational | Yes |
| SGS Solar Expansion | 1.8 | 3,300 | Fixed PV | Operational | Yes |
| SOLO Community Solar | 1.6 | 3,500 | SAT PV | Operational | Yes |
| Amonix Solar | 1.6 | 3,500 | CPV | Operational | No |
| Total Existing | 13.6 | 38,175 | | | |
| Bright Tucson Solar Buildout Plan | | | | | |
| Solon Solar & SunPower | 6.4 | 14,016 | SAT & Fixed PV | 2011 | Yes |
| Solon Solar & SunPower | 6.4 | 14,016 | SAT & Fixed PV | 2012 | Yes |
| SunPower & TBD | 6.4 | 14,016 | Fixed PV | 2013 | Yes |
| TBD | 6.4 | 14,016 | TBD | 2014 | Yes |
| Total Future - BTSBP | 25.6 | 56,064 | | | |
| Future Renewable Generation | | | | | |
| Torch Renewable Energy, LLC | 50 | 133,300 | Wind | 2011 | No |
| Amonix Solar | 9.6 | 21,020 | CPV | 2011 | No |
| CTC (First Light, LLC) | 4 | 7,010 | Fixed PV | 2011 | No |
| NRG Solar | 20 | 43,800 | Fixed PV | 2011 | No |
| Fotowatio Renewable Ventures | 20 | 43,800 | SAT PV | 2012 | No |
| ANS/EMCORE Solar | 1.6 | 3,500 | CPV | 2012 | No |
| Foresight Solar | 3.2 | 7,010 | SAT PV | 2012 | No |
| Foresight Solar | 9.6 | 21,020 | SAT PV | 2012 | No |
| Renewable Fuel LLC (Bell IPC) | 5.5 | 17,600 | Solar Thermal | 2013 | No |
| Sexton Energy | 2.2 | 15,400 | Bio-Mass | 2013 | No |
| Avalon Solar | 28 | 61,320 | Fixed PV | 2013 | No |
| Total Future - Pending | 187.8 | 280,460 | | | |
| Total Planned Generation | 227 | 374,699 | | | |
| Total Planned Generation thru 2012 | 144.4 | 271,337 | | | |

B. Bright Tucson Solar Buildout Plan

TEP's solar ownership plan (the "Bright Tucson Solar Buildout Plan") represents the small portion of the utility-scale requirement that will be met through a utility-owned program. TEP's initial proposed investments of \$28 million in its Bright Tucson Solar Buildout Plan were previously approved in Decision No. 72033. For 2012, TEP is proposing to invest an additional \$28 million in the Bright Tucson Solar Buildout Plan. The Bright Tucson Solar Buildout Plan remains an essential component of the Company's renewable strategy, providing balance to the Company's renewable portfolio, as well as an additional amount of certainty for the continued development of renewable energy.

For 2012, TEP is requesting Commission approval for two consecutive years (2012 and 2013) of investments, which will allow TEP to pursue a planned solar thermal steam augmentation to the existing Sundt Generating Station located in Tucson, Arizona. The project as planned will create approximately 5 MW of direct steam augmentation from a concentrating solar thermal facility, and would displace approximately 17,500 tons of coal and 35,000 tons of carbon dioxide ("CO2") emissions annually. Moreover, the steam will be injected directly into the existing steam cycle and no additional water will be required for cooling.

Due to the length of time required to plan, design, build, and test this facility (approximately 18 months), TEP is specifically requesting that the Commission approve a 2 year development plan to provide the utility and the developer the necessary certainty to move forward. This project would be part of the 2013 Bright Tucson Solar Buildout Plan. Table 2 represents the expected annual capital investment that TEP is requesting to recover annually.

Table 2. Bright Tucson Solar Buildout Plan Investment Timeline

| Year Installed | Initial Recovery Year | Annual Capital Investment | MW Capacity (approx) |
|-----------------------|------------------------------|----------------------------------|-----------------------------|
| 2012 | 2013 | \$28,000,000 | 7.0 MW |
| 2013 | 2014 | \$28,000,000 | 7.0 MW |
| 2-Year Total | | \$56,000,000 | 14 MW |

The annual revenue requirements for the requested investment (here, the term “revenue requirement connotes recurring costs related to the capital investment, including return on investment, depreciation, property taxes, and operations and maintenance (“O&M”) expenses), are delineated in Table 3. TEP is proposing to recover these amounts through the REST adjustor until the investment is included in rate base. Each column shown in Table 3 represents the expected revenue requirement for TEP’s capital investment from the prior year. For example, the 2012 revenue requirement relates to the capital invested in the Bright Tucson Solar Buildout Plan in 2011. It should be noted that the property tax revenue requirement for each investment is recovered in year 2 for each project (i.e., property tax collected in 2013 is from 2011 capital investment). The columns are not cumulative; please refer to Table 4 for expected cumulative annual revenue requirements.

Table 3. Revenue Requirement for the Bright Tucson Solar Buildout Plan

| Revenue Requirement | 2012 | 2013 | 2014 | 2015 |
|----------------------------------|--------------------|--------------------|--------------------|--------------------|
| Carrying Costs | \$1,013,453 | \$1,834,296 | \$1,195,108 | \$1,195,108 |
| Book Depreciation | \$1,400,000 | \$1,400,000 | \$1,400,000 | \$1,400,000 |
| O & M | \$100,000 | \$100,000 | \$100,000 | \$100,000 |
| Property Tax | - | \$134,545 | \$130,634 | \$130,634 |
| Total Revenue Requirement | \$2,513,453 | \$3,334,296 | \$3,451,904 | \$3,451,904 |

Annual estimates of the Bright Tucson Solar Buildout Plan's revenue requirement (to be included in the REST adjustor) are shown in Table 4.

Table 4. Estimated Annual REST Budget¹ for the Bright Tucson Solar Buildout Plan

| Utility Owned Solar Projects by Year | 2012 | 2013¹ | 2014 | 2015 |
|---|----------------|-------------------------|----------------|----------------|
| 2011 - 3.4 MW built in 2010 | \$1,655 | \$791 | | |
| 2012 - 7 MW built in 2011 | \$2,513 | \$1,371 | | |
| 2013 - 7 MW built in 2012 | | \$1,667 | | |
| 2014 - 7 MW built in 2013 | | | \$3,452 | \$3,249 |
| 2015 - 7 MW built in 2014 | | | | \$3,451 |
| Annual Revenue Requirement | \$4,168 | \$3,829 | \$3,452 | \$6,701 |

C. Bright Tucson Community Solar Program

In Decision No. 72033, TEP received approval of its Bright Tucson Community Solar Program. This program, which consists of a voluntary customer tariff for customers wishing to displace a portion of their conventional energy use with solar power, fulfills a portion of the Company's DG requirement. Funds received from participants in the Community Solar Program are credited back to the REST budget. At the time of this filing, TEP has designated two solar facilities to participate in the Community Solar Program – the 1.6 MW TEP-owned project located at the University of Arizona Science & Technology Park (UASTP), and the 2 MW Amonix-owned project, also located at the UASTP.

D. Bright Roofs Program

In 2011, TEP launched its Bright Roofs Program. This program will allow TEP to lease roof space from various entities within the service territory for the installation of utility-owned rooftop solar systems. These systems are intended to be large scale, commercial-sized distributed generation facilities that are grid-tied and range in size from 250 kW to 1 MW or

¹ All values in 000s. Table assumes solar assets are included in rate base as of July 1, 2013 from the expected 2012 TEP rate case.

more, depending on the size of the rooftop. By investing in this program through the Bright Tucson Buildout Program, the Company is able to purchase these systems at utility-scale prices while achieving the benefits of a distributed generation system. This program has several benefits as it reduces the need for additional infrastructure, eliminates the need to purchase and clear land, and allows the utility to concentrate the location of the systems in areas of the service system where they will provide the greatest benefit to system operability. Generation from these rooftop systems will be considered non-residential distributed generation for compliance filing purposes, in accordance with the Arizona Renewable Energy Standard.

E. Distributed Generation Incentive Program

TEP looks forward to continuing the successful implementation of its DG programs. The Plan proposes \$22.1 million in funding for the incentive programs. The Plan uses the RES required 50/50 split of the DG energy requirement between the residential and commercial sectors, as shown in Exhibit 1. The DG program requirements and incentive levels are outlined in the Renewable Energy Credit Purchase Program (“RECPP”), included as Exhibit 5. There are no new additions to the 2012 Plan; however, programs have been streamlined and incentive levels modified to be consistent with current market demand. Each program is described below.

i. Renewable Energy Credit Purchase Program

The RECPP portion of TEP’s Plan targets three areas: (1) residential up-front incentives (“UFI”); (2) non-residential UFIs; and (3) non-residential performance based incentives (“PBI”). The projected cost of the RECPP is \$21.5 million, which includes a residential budget of \$14.3 million as ordered in Decision No. 72033.² To meet the 2012 compliance requirements, however, the Company believes it needs only \$12.6 million.³ The remainder of the RECPP budgets \$1.1 million for small commercial UFIs and \$6 million for large commercial PBIs. These amounts are necessary in order for TEP to fully satisfy the commercial portion of the

² Please see the attached Exhibit 2 RES Budget for more details.

³ Please see the attached Exhibit 2A RES Budget with Reduced Residential Up-Front Incentives for more details.

RES's DG requirement through the RECPP. Table 5 outlines the 2012 incentive budget for each customer segment, including the MWh and MW achieved.

Table 5. UFI/PBI Budget and Forecast

| Customer Segment | 2012 Budget | Annual MWh | Annual MW |
|-------------------------|--------------------|-------------------|------------------|
| Residential UFI | \$14,358,111 | 13,438 | 6.5 |
| Small Commercial UFI | \$1,114,510 | 1,405 | 0.8 |
| Large Commercial PBI | \$5,972,915 | 1,756 | 1.0 |

TEP has continued to experience great success with its UFI and PBI programs. Thus, the following refinements to the RECPP are appropriate for 2012. Residential incentives will be reduced from \$2.00 per watt to \$1.75 per watt, with the exception of residential leases, which will be offered at \$1.00 per watt. Small commercial incentives will remain the same at \$1.50 per watt. The commercial hot water UFI-limit will remain at 400,000 kWh. The small commercial UFI budget will continue to be separated from the residential UFI and commercial PBI budgets in order to ensure its viability. Technical requirements for the RECPP will be updated, and three categories for larger PV systems will be implemented. Incentives for these larger PV systems will be lowered to align them with current market prices, as shown in Table 6. For more details on the RECPP, please see the attached Exhibit 5.

Table 6. Production Based Incentive Categories

| PBI Category | Max REC Price |
|-----------------------|----------------------|
| 70-200 kW DC | \$0.125 |
| 201-400 kW DC | \$0.105 |
| 401 kW DC and Greater | \$0.91 |

In order to maintain the programs throughout the year, TEP is also proposing an automatic trigger to further reduce incentives if the annualized pace of compliance for the residential and commercial UFI programs is exceeded early, as shown in Table 7.

Table 7. Automatic Incentive Reductions

| Customer Segment | 2011 Incentive | 2012 Incentive | First Trigger (60% compliance on or before 6/30/2012) |
|-------------------------|-----------------------|-----------------------|--|
| Residential UFI* | \$2.00/watt | \$1.75/watt | \$1.50/watt |
| Small Commercial UFI* | \$1.50/watt | \$1.50/watt | \$1.25/watt |

*Excluding leased systems, which will be offered at \$1.00/watt.

ii. School Vocational Program

Following the successful implementation of our Schools Program in 2011, TEP plans to continue the program for eligible schools in its service territory in 2012. This program will provide ten to fourteen PV systems ranging in size from 5 to 10 kilowatts to eligible schools. TEP will supply and install the necessary system equipment in addition to creating and facilitating a vocational training program designed to be consistent with Arizona curriculum standards. To ensure the systems are installed to the highest available standards, TEP will only utilize installers who subscribe to the standards set forth by the Southern Arizona Solar Standards Board. The Schools Program is designed so that the number of eligible schools in a school district is proportional to the size of the district within TEP's service territory to ensure that each district is eligible to receive at least one system. TEP will work closely with district officials to determine appropriate sites. The estimated cost of this project is \$650,000.

F. Market Cost of Comparable Conventional Generation

Consistent with the RES rules, TEP calculates program expenses using the Market Cost of Comparable Conventional Generation ("MCCCG"). Details on the methodology for the MCCCG calculation are included in the attached Exhibit 3. The annual MCCCG rates are

calculated in advance and stated as a single dollar per megawatt hour value by technology type. The expenses are based on the PPA pricing after subtracting the corresponding MCCCCG based on projected hourly energy profiles and are included in Exhibit 4 (confidential). The profiles are determined by TEP's production cost model. The MCCCCG will be included for wind, PV systems, concentrated solar with storage, and bio-fueled renewable resources.

III. THE PLAN BUDGET

As stated previously, the cost to implement TEP's 2012 Plan will be \$44 million. The Plan's detailed budget is attached as Exhibit 2. Exhibit 2 includes a breakdown of the costs for purchased renewable energy, the DG programs, research and development, outside services support and reporting, technology, and marketing. Table 10 includes a high level Plan budget.

Table 10. Plan Budget by Category

| | |
|--|---------------------|
| Utility Scale | \$17,651,418 |
| Residential UFI | \$14,358,111 |
| Commercial UFI | \$1,114,510 |
| Commercial PBI | \$5,972,915 |
| School Vocational & Other Training | \$750,000 |
| Marketing & Outreach | \$700,000 |
| Other Costs (Metering, I.T., Reporting & Labor, and R&D) | \$3,436,372 |
| 2012 Program Cost | \$43,983,326 |
| Carryover Funds | (\$4,875,000) |
| Total | \$39,108,326 |

IV. THE 2012 RES TARIFF.

The Plan's tariff is set forth in the attached Exhibit 6.⁴ TEP's 2012 Plan will require a tariff of \$0.0077/kWh, with customer caps by class. The caps were developed using a previously approved methodology (proportional cap allocation). Under that methodology, the caps for all

⁴ Additionally, the Customer Self-Directed Tariff is set forth in the attached Exhibit 7.

customer classes are being increased slightly. Table 11 (i) details the Company's approved budget for 2011 and proposed budget for 2012 delineated by rate class and (ii) sets forth the currently approved customer class caps and the caps proposed for the 2012 Plan.

Table 11. 2011/2012 RES Budget by Rate Class

| Rate Class | 2011 Approved REST Budget | 2012 Proposed REST Budget |
|---------------------|----------------------------------|----------------------------------|
| Residential | \$15,905,197 | \$17,393,069 |
| Small Commercial | \$10,441,814 | \$11,451,735 |
| Large Commercial | \$6,781,882 | \$6,083,266 |
| Industrial & Mining | \$1,793,166 | \$3,103,622 |
| Public Authority | \$729,519 | \$815,757 |
| Lighting (PSHL) | \$232,786 | \$262,759 |
| Total | \$35,884,324 | \$39,110,208 |

| Rate Class | Current Rates Caps | Proposed Rates Caps |
|-------------------------------|---------------------------|----------------------------|
| Residential | \$4.50 | \$5.00 |
| Small Commercial | \$160.00 | \$178.00 |
| Large Commercial | \$1000.00 | \$1,110.00 |
| Industrial & Mining | \$5,500.00 | \$6,130.00 |
| Public Authority | \$180.00 | \$200.00 |
| Lighting (PSHL) | \$160.00 | \$178.00 |
| Per kWh to all Classes | \$0.007121 | \$0.007698 |

V. RESEARCH AND DEVELOPMENT.

In order to support the adoption of renewable energy, TEP dedicates some of its current REST funding towards research and development. Table 12 outlines TEP's proposed budget for research and development for 2012. TEP plans to continue its commitment to furthering renewable energy research by participating in the following projects.

Table 12. TEP's Research and Development Budget by Project

| Research and Development Initiatives | Budget |
|---|-------------------|
| AZRise Research | \$ 250,000 |
| TEP Test Site | \$ 350,000 |
| EPRI and Transmission Integration Studies | \$ 341,000 |
| Total | \$ 941,000 |

A. AzRise

The AzRise Global Institute at the University of Arizona ("U of A") conducts fundamental interdisciplinary solar energy research, backed by accurate and realistic economic analyses, for the deployment and practical implementation of solar energy solutions. TEP believes these findings are vital to supporting the REST's goals. TEP's REST dollars spent with AzRise help to further the renewable energy market and help TEP to meet its renewable goals. AzRise will be responsible for ongoing data management for the TEP Solar Test Sites, energy storage data evaluation, and ongoing distributed generation production analysis specific to Arizona. These projects represent significant contributions to the local knowledge base that will be required to make solar energy more effective. This project will cost \$250,000.

B. Irvington/Sundt Test Site Plan

TEP continues to provide training and testing of new solar products at the Irvington/Sundt test yard/site, where several manufacturers of PV products are represented. TEP is working with the U of A in tracking and assessing PV product data to determine product longevity, reliability, and applicability to various residential and commercial locations in Tucson. This test site development plan is estimated to cost \$350,000.

C. Electric Power Research Institute Plan and Transmission Variable Generation Integration Study

TEP is planning to continue its subscription with the Electric Power Research Institute (“EPRI”) in 2012. Previous studies conducted in 2011 and carried forward into 2012, as well as new programs for 2012, will provide necessary data and application information for the implementation of variable generation (“VG”) into utility grids, both for transmission and distribution systems. The total estimated cost of subscription is \$191,000.

TEP will contract with either the National Renewable Energy Laboratory (“NREL”) or EPRI to provide continued solar generation resource integration information at a sub-transmission and higher system wide level. The impacts of large VG penetration on TEP's system will be studied, including capacity limitations, operational requirements, and the assessment of TEP's operations relative to incorporating large renewable capacity into the system. Study information from the 2011 Grid Stability Study will be used to model various transmission system penetration levels. The models will support analysis consisting of residential and commercial DG solar penetration up to and including utility scale solar generation systems. NREL or EPRI will model different levels of penetration based on future DG integration over the next 2-5 years. TEP's internal Transmission Planning group will evaluate the various models to determine the impact on system dispatch criteria, regulation, and reserves. This information will also provide the Transmission Planning group with several dynamic models to analyze various intermittency cases with solar applications on the grid.

The cost estimate for this program is \$150,000.

D. Compliance with Decision No. 72033

As part of Decision No. 72033, TEP was required to “include, as part of future annual REST plan filings, a list of any cases within the previous three calendar years where Tucson

Electric Power has received damages or other considerations as a result of non-compliance related to RES contracts.” As of the time of this filing, TEP has received no damages or other considerations as a result of non-compliance related to RES contracts in the previous three years.

TEP was also ordered, as part of Decision No. 72033, to “disclose, as part of future annual REST plan filings, whether its affiliates, its employees, or its directors have any direct financial or other interest in renewable energy projects that are owned or whose output is contracted for by Tucson Electric Power.” As of the time of this filing, TEP has no affiliates, employees, or directors with any direct financial or other interest in renewable energy projects that are owned or whose output is contracted for by TEP.

Finally, Decision No. 72033 required “that Tucson Electric Power Company notify the Commission as part of all future REST Implementation Plans, whether the inclusion of the Davis-Monthan AFB project in the Company’s commercial DG program has precluded any other non-residential renewable DG systems from receiving utility incentives because Tucson Electric Power Company is already in compliance with its non-residential renewable DG requirements as a result of signing the contract with the Davis-Monthan AFB.” While TEP expects to be in compliance with its non-residential renewable DG requirements by the end of 2011 based on the number of applications received so far, there are no projects that have been denied specifically due to the DMAFB project as of the time of this filing. As of June 2011, six (6) commercial projects have submitted applications through the competitive bid process but have not been successful in the monthly award allocation process due to being either too large or too expensive as compared to other submitted projects. These projects represent a total of 1,860 kW of capacity and have requested approximately \$425,000 in annual funding, with an average

effective REC price of \$0.095 per kWh. As of time of this filing, just over \$1 million remains to be awarded in 2011 through this program.

EXHIBIT

"1"

Energy and Demand Forecast

| Item | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|---------------|---------------|---------------|---------------|---------------|
| REST Requirement | 3.50% | 4.00% | 4.50% | 5.00% | 6.00% |
| Net Retail Energy Sales in MWh per Year | 9,494,397 | 9,741,841 | 9,890,948 | 10,027,253 | 10,147,724 |
| Renewable Energy Required - MWh | 332,304 | 389,674 | 445,093 | 501,363 | 608,863 |
| Utility Scale Energy Requirement % | 70.00% | 70.00% | 70.00% | 70.00% | 70.00% |
| Utility Scale Energy Requirement MWh | 232,613 | 272,772 | 311,565 | 350,954 | 426,204 |
| Minimum Distributed Energy % | 30.00% | 30.00% | 30.00% | 30.00% | 30.00% |
| Minimum Distributed Energy MWh | 99,691 | 116,902 | 133,528 | 150,409 | 182,659 |
| Residential DG | | | | | |
| Minimum Residential Distributed Energy % | 15.00% | 15.00% | 15.00% | 15.00% | 15.00% |
| Minimum Residential Distributed Energy MWh cumulative | 49,846 | 58,451 | 66,764 | 75,204 | 91,330 |
| Incremental Residential DG Required MWh (or actual if available) | 13,438 | 8,605 | 8,313 | 8,440 | 16,125 |
| Estimated Residential DG MWh Cumulative (Include Reserved) | 49,846 | 58,451 | 66,764 | 75,204 | 91,330 |
| Commercial DG | | | | | |
| Maximum Commercial Distributed Energy % | 15.00% | 15.00% | 15.00% | 15.00% | 15.00% |
| Maximum Commercial Distributed Energy MWh | 49,846 | 58,451 | 66,764 | 75,204 | 91,330 |
| Incremental Commercial DG Required MWh (or actual if available) | 13,438 | 8,605 | 8,313 | 8,440 | 16,125 |
| Estimated Commercial DG MWh Cumulative (Include Reserved) | 49,846 | 58,451 | 66,764 | 75,204 | 91,330 |
| Annual PBI Budget | \$219,540 | \$473,300 | \$415,643 | \$379,822 | \$645,005 |
| Residential PV UFI | \$1.75 | \$1.50 | \$1.25 | \$1.00 | \$0.75 |
| Small Commercial PV UFI | \$1.50 | \$1.25 | \$1.00 | \$0.75 | \$0.50 |
| Large Commercial PV PBI | \$0.125 | \$0.110 | \$0.100 | \$0.090 | \$0.080 |
| TEP DG Budget Requirements | 2012 | 2013 | 2014 | 2015 | 2016 |
| DG kWh required | 99,691,165 | 116,902,090 | 133,527,796 | 150,408,794 | 182,659,034 |
| Commercial DG | | | | | |
| Commercial DG kWh cumulative required | 49,845,583 | 58,451,045 | 66,763,898 | 75,204,397 | 91,329,517 |
| Existing Commercial DG kWh | 46,332,945 | 49,845,583 | 58,451,045 | 66,763,898 | 75,204,397 |
| Commercial DG kWh Required | 3,512,638 | 8,605,462 | 8,312,853 | 8,440,499 | 16,125,120 |
| Small Commercial UFI incremental required | 1,405,055 | 4,302,731 | 4,156,427 | 4,220,249 | 8,062,560 |
| Large Commercial PBI incremental required | 1,756,319 | 4,302,731 | 4,156,427 | 4,220,249 | 8,062,560 |
| Large Commercial new kW | 1,004 | 2,459 | 2,375 | 2,412 | 4,607 |
| Small Comm PV % | 80.0% | 80.0% | 80.0% | 80.0% | 80.0% |
| Small Comm H2O % | 20.0% | 20.0% | 20.0% | 20.0% | 20.0% |
| Small Comm PV kWh | 1,124,044 | 3,442,185 | 3,325,141 | 3,376,200 | 6,450,048 |
| Small Comm H2O kWh | 281,011 | 860,546 | 831,285 | 844,050 | 1,612,512 |
| Small Comm PV new kW | 642 | 1,967 | 1,900 | 1,929 | 3,686 |
| Small Comm PV systems (40 kW average) | 9 | 28 | 27 | 28 | 53 |
| Small Comm H2O systems (20,000 kWh average) | 14 | 43 | 42 | 42 | 81 |
| Small Comm H2O Cost @ \$10,750 per system average | \$ 151,043 | \$ 462,544 | \$ 446,816 | \$ 453,677 | \$ 866,725 |
| Small Comm PV Cost | \$ 963,466 | \$ 2,458,704 | \$ 1,900,081 | \$ 1,446,943 | \$ 1,842,871 |
| Residential DG | | | | | |
| Residential DG kWh cumulative required | 49,845,583 | 58,451,045 | 66,763,898 | 75,204,397 | 91,329,517 |
| Existing Residential kWh | 36,407,574 | 49,845,583 | 58,451,045 | 66,763,898 | 75,204,397 |
| Residential incremental kWh required by year | 13,438,008 | 8,605,462 | 8,312,853 | 8,440,499 | 16,125,120 |
| Res PV% | 85% | 85% | 85% | 85% | 85% |
| Res H2O% | 15.0% | 15.0% | 15.0% | 15.0% | 15.0% |
| Res PV kWh | 11,422,307 | 7,314,643 | 7,065,925 | 7,174,424 | 13,706,352 |
| Res H2O kWh | 2,015,701 | 1,290,819 | 1,246,928 | 1,266,075 | 2,418,768 |
| Res PV kw (1750kwh/kw) | 6,527 | 4,180 | 4,038 | 4,100 | 7,615 |
| Res PV systems (6 kW average) | 1,088 | 697 | 673 | 683 | 1,904 |
| Res H2O systems (2600 kWh average) | 775 | 496 | 480 | 487 | 930 |
| Res PV Cost | \$ 11,422,307 | \$ 6,269,694 | \$ 5,047,089 | \$ 4,099,671 | \$ 5,710,980 |
| Res H2O Cost @ \$1,500 per system average | \$ 1,162,905 | \$ 744,703 | \$ 719,382 | \$ 730,428 | \$ 1,395,443 |
| Total Cost Res UFI | \$ 12,585,212 | \$ 7,014,397 | \$ 5,766,471 | \$ 4,830,099 | \$ 7,106,423 |
| Total Cost Small Comm UFI | \$ 1,114,510 | \$ 2,921,247 | \$ 2,346,897 | \$ 1,900,619 | \$ 2,709,596 |
| Total UFI Cost | \$ 13,699,721 | \$ 9,935,645 | \$ 8,113,368 | \$ 6,730,718 | \$ 9,816,019 |
| Total Incremental PBI Cost | \$ 219,540 | \$ 473,300 | \$ 415,643 | \$ 379,822 | \$ 645,005 |
| Total PBI Cumulative Cost | \$ 5,972,915 | \$ 6,446,215 | \$ 6,861,858 | \$ 7,241,680 | \$ 7,886,685 |
| Total DG Incentive Cost | \$ 19,672,636 | \$ 16,381,860 | \$ 14,975,225 | \$ 13,972,399 | \$ 17,702,704 |

EXHIBIT

"2"

TEP Exhibit 2
2012 Renewable Energy Standard and Tariff

| Cost Recovery Factors Definition for 2012 | | 2012 | 2011 |
|---|--|----------------------|----------------------|
| Total REST Budget & Tariff Collection 2012: | | \$ 39,108,326 | \$ 35,883,389 |
| Utility Scale Energy | | | |
| Above Market Cost of Conventional Generation calculated annually on hourly data per MCCCC Matrix ¹ | | \$ 12,377,000 | \$ 3,268,184 |
| DMAFB SunEdison ² | | \$ 1,045,500 | \$ 1,275,000 |
| TEP owned ³ | | \$ 4,228,918 | \$ 1,758,759 |
| Total | | \$ 17,651,418 | \$ 6,301,943 |
| Customer Sited Distributed Renewable Energy: | | | |
| Up-front Incentive (UFI) (residential) ⁴ | | \$ 14,358,111 | \$ 14,358,111 |
| Up-front Incentive (UFI) (commercial) ⁵ | | \$ 1,114,510 | \$ 3,769,230 |
| Annual Performance-based Incentive (PBI) ⁶ | | \$ 5,972,915 | \$ 5,753,375 |
| Annual meter reading cost ⁷ | | \$ 19,531 | \$ 15,625 |
| Marketing ⁸ | | \$ 700,000 | \$ 750,000 |
| Total | | \$ 22,165,067 | \$ 24,646,341 |
| Technical Training: | | | |
| Schools Vocational Training Program ⁹ | | \$ 650,000 | \$ 650,000 |
| TEP internal and contractor training costs ¹⁰ | | \$ 100,000 | \$ 236,000 |
| Total | | \$ 750,000 | \$ 886,000 |
| Information Systems Integration Costs ¹¹ | | \$ 500,000 | \$ 425,000 |
| Metering: | | | |
| Direct material cost for DG production meters, labels, disconnects, meter panels, BTU meters ¹² | | \$ 227,982 | \$ 486,685 |
| Total | | \$ 227,982 | \$ 486,685 |
| Program Labor and Administration | | | |
| Internal Labor ¹³ | | \$ 1,185,090 | \$ 1,143,950 |
| External Labor ¹⁴ | | \$ 468,769 | \$ 426,050 |
| Materials and Supplies ¹⁵ | | \$ 75,000 | \$ 75,000 |
| AZ Solar website ¹⁶ | | \$ 4,000 | \$ 150,000 |
| Total | | \$ 1,732,859 | \$ 1,795,000 |
| Renewable Energy Research and Development: | | | |
| Technology development projects – solar test yard costs ¹⁷ | | \$ 350,000 | \$ 300,000 |
| AZRISE ¹⁸ | | \$ 250,000 | \$ 250,000 |
| EPRI research, & Transmission Integration Study ¹⁹ | | \$ 341,000 | \$ 500,000 |
| Dues and Fees ²⁰ | | \$ 15,000 | \$ 15,000 |
| Total | | \$ 956,000 | \$ 1,065,000 |
| Total Other | | \$ - | \$ 277,420 |
| 2012 Program Cost (Total Budget) | | \$ 43,983,326 | |
| Carryover of REST Funds from 2010 ²¹ | | \$ 4,875,000 | |
| Grand Total (to be collected in 2012 tariff) | | \$ 39,108,326 | \$ 35,883,389 |

TEP Exhibit 2
2012 Renewable Energy Standard and Tariff

Notes:

- 1: Premium costs of wholesale purchased renewable energy above the market cost of comparable conventional generation. See Exhibit 4.
- 2: DG project to be sited behind customer meter total array size is 15 MW. Energy consumed by customer.
- 3: ACC approved TEP build-out plan. Covers revenue requirement (carrying costs, book depreciation, property tax, and O&M) until 2013 rate case.
- 6: Residential up-front incentive dollars to purchase RECs for 20 years. ACC required budget to be same as 2011 budget. Actual required budget estimated to meet compliance is \$12,585,212. See Exhibit 1.
- 7: Small commercial up-front incentive dollars to purchase RECs for 20 years. See Exhibit 1.
- 8: Large commercial dollars to purchase RECs as they are produced. Terms vary between projects. See Exhibit 1.
- 9: Costs for reading production meters for DG systems to verify kWh output and quantify actual RECs produced.
- 10: Marketing materials, mass media, web, etc.
- 11: Approximately 10, 5 kW systems donated to and installed at area schools. Training program curriculum developed for the schools as well. TEP does not own these systems.
- 12: Travel associated with siting renewable projects, trade conferences, technical staff training, installer and stakeholder meetings.
- 13: Money allocated to project that will be interface between customers and programs and will interface to billing, work management, geospatial systems and others. Required for administration of DG programs and for technical assessment of impact of DG to system and for REC tracking and reporting.
- 14: All systems producing electricity are metered as are some larger solar thermal systems. Safety devices and labels are also provided. Required for accurate measure of production for REC tracking and required for safety and system reliability.
- 15: Company labor required to manage REST programs. Include supervision, engineering, information technology, program administration, and regulatory reporting.
- 16: Contract labor for system inspections, maintenance, and department administration.
- 17: Equipment and material required annually for program administration.
- 18: Annual costs for Arizona Go Solar website.
- 19: Company installs, monitors, compares, and assesses various renewable technology to build a body of knowledge that will help integrate renewable energy into the grid and document performance criteria relative to local conditions.
- 20: Research done by University of Arizona that is important to further development and large scale deployment of renewable energy.
- 21: Studies performed to understand generation, transmission, and distribution interoperability and storage.
- 22: Renewable energy associations and trade organizations useful for knowledge transfer and communication of best practices.
- 23: Includes approximately \$3.6 M carry over from 2010 and \$1.275 M collected in 2011 for the DMAFB RECs. The \$3.6 M will be allocated to the residential UFI and the \$1.275 will be allocated to the DMAFB project expected to be in full production by the end of 2011.

TEP Exhibit 2 (A)
2012 Renewable Energy Standard and Tariff

| Cost Recovery Factors Definition for 2012 | 2012 | 2011 |
|--|----------------------|----------------------|
| Total REST Budget & Tariff Collection 2012: | \$ 37,335,427 | \$ 35,883,389 |
| Utility Scale Energy | | |
| Above Market Cost of Conventional Generation calculated annually on hourly data per MCCCCG Matrix ¹ | \$ 12,377,000 | \$ 3,268,184 |
| DMAFB SunEdison ² | \$ 1,045,500 | \$ 1,275,000 |
| TEP owned ³ | \$ 4,228,918 | \$ 1,758,759 |
| Total | \$ 17,651,418 | \$ 6,301,943 |
| Customer Sited Distributed Renewable Energy: | | |
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| Annual Performance-based Incentive (PBI) ⁶ | \$ 5,972,915 | \$ 5,753,375 |
| Annual meter reading cost ⁷ | \$ 19,531 | \$ 15,625 |
| Marketing ⁸ | \$ 700,000 | \$ 750,000 |
| Total | \$ 20,392,169 | \$ 24,646,341 |
| Technical Training: | | |
| Schools Vocational Training Program ⁹ | \$ 650,000 | \$ 650,000 |
| TEP internal and contractor training costs ¹⁰ | \$ 100,000 | \$ 236,000 |
| Total | \$ 750,000 | \$ 886,000 |
| Information Systems Integration Costs ¹¹ | \$ 500,000 | \$ 425,000 |
| Metering: | | |
| Direct material cost for DG production meters, labels, disconnects, meter panels, BTU meters ¹² | \$ 227,982 | \$ 486,685 |
| Total | \$ 227,982 | \$ 486,685 |
| Program Labor and Administration | | |
| Internal Labor ¹³ | \$ 1,185,090 | \$ 1,143,950 |
| External Labor ¹⁴ | \$ 468,769 | \$ 426,050 |
| Materials and Supplies ¹⁵ | \$ 75,000 | \$ 75,000 |
| AZ Solar website ¹⁶ | \$ 4,000 | \$ 150,000 |
| Total | \$ 1,732,859 | \$ 1,795,000 |
| Renewable Energy Research and Development: | | |
| Technology development projects – solar test yard costs ¹⁷ | \$ 350,000 | \$ 300,000 |
| AZRISE ¹⁸ | \$ 250,000 | \$ 250,000 |
| EPRI research, & Transmission Integration Study ¹⁹ | \$ 341,000 | \$ 500,000 |
| Dues and Fees ²⁰ | \$ 15,000 | \$ 15,000 |
| Total | \$ 956,000 | \$ 1,065,000 |
| Total Other | \$ - | \$ 277,420 |
| 2012 Program Cost (Total Budget) | \$ 42,210,427 | |
| Carryover of REST Funds from 2010 ²¹ | \$ 4,875,000 | |
| Grand Total (to be collected in 2012 tariff) | \$ 37,335,427 | \$ 35,883,389 |

TEP Exhibit 2 (A)
2012 Renewable Energy Standard and Tariff

Notes:

- 1: Premium costs of wholesale purchased renewable energy above the market cost of comparable conventional generation. See Exhibit 4.
- 2: DG project to be sited behind customer meter total array size is 15 MW. Energy consumed by customer.
- 3: ACC approved TEP build-out plan. Covers revenue requirement (carrying costs, book depreciation, property tax, and O&M) until 2013 rate case.
- 6: Residential up-front incentive dollars to purchase RECs for 20 years. ACC required budget to be same as 2011 budget. Actual required budget estimated to meet compliance is \$12,585,212. See Exhibit 1.
- 7: Small commercial up-front incentive dollars to purchase RECs for 20 years. See Exhibit 1.
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- 9: Costs for reading production meters for DG systems to verify kWh output and quantify actual RECs produced.
- 10: Marketing materials, mass media, web, etc.
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- 12: Travel associated with siting renewable projects, trade conferences, technical staff training, installer and stakeholder meetings.
- 13: Money allocated to project that will be interface between customers and programs and will interface to billing, work management, geospatial systems and others. Required for administration of DG programs and for technical assessment of impact of DG to system and for REC tracking and reporting.
- 14: All systems producing electricity are metered as are some larger solar thermal systems. Safety devices and labels are also provided. Required for accurate measure of production for REC tracking and required for safety and system reliability.
- 15: Company labor required to manage REST programs. Include supervision, engineering, information technology, program administration, and regulatory reporting.
- 16: Contract labor for system inspections, maintenance, and department administration.
- 17: Equipment and material required annually for program administration.
- 18: Annual costs for Arizona Go Solar website.
- 19: Company installs, monitors, compares, and assesses various renewable technology to build a body of knowledge that will help integrate renewable energy into the grid and document performance criteria relative to local conditions.
- 20: Research done by University of Arizona that is important to further development and large scale deployment of renewable energy. See Exhibit 8.
- 21: Studies performed to understand generation, transmission, and distribution interoperability and storage. See Exhibit 8.
- 22: Renewable energy associations and trade organizations useful for knowledge transfer and communication of best practices. See Exhibit 8.
- 23: Includes approximately \$3.6 M carry over from 2010 and \$1.275 M collected in 2011 for the DMAFB RECs. The \$3.6 M will be allocated to the residential UFI and the \$1.275 will be allocated to the DMAFB project expected to be in full production by the end of 2011.

EXHIBIT

"3"

Market Cost of Comparable Conventional Generation

I. OVERVIEW

Consistent with the Renewable Energy Standard Tariff (“REST”) Rules approved by the Arizona Corporation Commission (“Commission”), Tucson Electric Power Company’s (“TEP” or the “Company”) RES T Implementation Plan contemplates recovery of expenses in excess of the Market Cost of Comparable Conventional Generation (“MCCCG”).” The Commission provided guidance on defining MCCCG in the context of its REST Rules and identified the MCCCG as “the Affected Utility’s energy and capacity cost of producing or procuring the incremental electricity that would be avoided by the resources used to meet the Annual Renewable Energy Requirement, taking into account hourly supply and demand circumstances. Avoided costs should include any avoided transmission, distribution, and environmental compliance costs.” This exhibit defines the methodology for developing the MCCCG rate for the Company.

II. METHODOLOGY

Annual MCCCG rates shall be calculated in advance and stated as a single \$/MWh value by renewable technology type. The renewable technology types will be based on projected hourly energy profiles for each type of renewable resource. Annual MCCCG rates will include renewable resources such as wind resources, fixed photovoltaic systems, concentrated solar with storage, single-axis tracking photovoltaic systems, and bio-fueled resources. Specific MCCCG rates would be developed as needed when new renewable technologies or new purchase power agreements are added to the Company’s renewable portfolio. Annual MCCCG rates will capture the value of the seasonality and time of day delivery by deriving an average of on and off peak dispatch costs weighted by on and off peak renewable generation. MCCCG rates shall be calculated each year using the Company’s production cost simulation software ‘Planning & Risk’. The hourly MCCCG rate determination criteria are shown in Table 1 below by comparing the types of renewable generation with the resource dispatch type. All projected MCCCG hourly rates are based on a ‘Planning & Risk’ production cost simulation that

TEP Exhibit 3
2012 Renewable Energy Standard and Tariff

forecasts adequate generation and transmission capacity to meet all firm load obligations including system reserve requirements. Finally, the cost of renewable generation above the annual MCCCCG rates will be recovered through the RES Tariff.

Table 1 - MCCCCG Hourly Rate Determination Matrix

| | | Types of Renewable Generation Resources | | | |
|-------------------------------|--|---|---------------------------|-------------------------------|--|
| | | Dispatchable Renewable Generation | Firm Renewable Generation | Non-Firm Renewable Generation | Curtable Non Firm Renewable Generation |
| Resource Dispatch Type | Wholesale sales transaction served from existing resource portfolio | The MCCCCG rate will be based on projected incremental production costs to serve firm load and wholesale sales opportunities for that hour. Costs will include any projected transmission, distribution and environmental compliance costs. | | | |
| | No market transactions. Generation available from thermal resource portfolio. | | | | |
| | Day, week or month ahead purchase transaction to serve firm load requirements. | The MCCCCG rate will be based on the projected day, week or month-ahead firm purchase power transactions committed for that hour. Costs will include any projected transmission, distribution and environmental compliance costs. | | | |
| | Spot market transaction to serve firm load requirements. | The MCCCCG rate will be based on the projected Palo Verde spot market price for that hour. Costs will include any projected transmission, distribution and environmental compliance costs. | | | |

TEP Exhibit 3
2012 Renewable Energy Standard and Tariff

III. CALCULATION

$$MCCCG_{on} = \text{Annual Average On Peak MCCCCG Rate} = \frac{\sum_{i=1}^{8760} PR_i * G_i * X_i}{\sum_{i=1}^{8760} G_i * X_i}$$

$$MCCCG_{off} = \text{Annual Average Off Peak MCCCCG Rate} = \frac{\sum_{i=1}^{8760} PR_i * G_i * (1 - X_i)}{\sum_{i=1}^{8760} G_i * (1 - X_i)}$$

$MCCCG_{Annual Rate}$ = Average of on and off peak MCCCCG rate weighted by projected on and off peak renewable generation.

It is assumed that there is a specific MCCCCG rate for each renewable technology type.

Where

PR_i = Projected Planning & Risk dispatch cost (\$/MWh) for hour $i=1,2,\dots,8760$.

G_i = Projected energy generation in renewable technology resource profile for hour $i=1,2,\dots,8760$.

$X_i = \begin{cases} 1 & \text{if hour } i \text{ is an on peak market hour} \\ 0 & \text{Otherwise} \end{cases}$ for $i = 1,2, \dots, 8760$

Table 2 – TEP’s 2012 MCCCCG Annual Rates

| Renewable Technology | MCCCCG Annual Rates | |
|----------------------|---------------------|---------|
| | | \$/MWh |
| | AZ Wind | \$55.54 |
| | Biomass | \$57.89 |
| | NM Wind | \$55.90 |
| | Solar CSP | \$65.99 |
| | Solar PV | \$65.54 |

EXHIBIT

"4"

CONFIDENTIAL

EXHIBIT

"5"

Exhibit 5

Tucson Electric Power Company

Renewable Energy Credit Purchase Program

2012

TABLE OF CONTENTS

| | |
|--|----|
| Frequently Asked Questions..... | 1 |
| Up-Front Incentives: Qualifications, Applications, and Restrictions | 3 |
| Up-Front Incentives Levels for Solar Electric Residential Projects 30 kW DC or Less and Non-Residential Projects 70 kW DC or less..... | 6 |
| Performance Based Incentives: Qualifications, Applications, and Restrictions..... | 12 |
| Performance Based Incentive Levels for Non-Residential Solar Electric Projects Greater than 70 kW DC..... | 14 |
| Incentive Levels for Residential and Small Non-Residential Solar Water Heating and Space Heating Smaller than 400,000 kWh Equivalent Annual Production Per Year, Non-Residential Solar Pool Heating | 21 |
| Incentive Levels for Large Non-Residential Solar Water Heating and Space Heating Systems with Annual Production Output Larger than 400,000 kWh Equivalent | 28 |
| Incentive Levels for Ground Source Heat Pumps – Residential and Non-Residential Applications..... | 33 |
| Incentive Levels for Wind Systems Smaller than 1 MW | 37 |
| Incentive Levels for Non-Residential Solar Daylighting | 41 |
| Incentive Levels for Additional Technologies with Prescriptive Incentives..... | 45 |
| Technologies without Technology Specific Criteria | 54 |
| Non-Conforming Projects..... | 55 |
| Appendix 1: Incentive Summary Tables | 56 |
| Appendix 2: Glossary of Terms..... | 57 |

Tucson Electric Power Company's Renewable Energy Credit Purchase Program Frequently Asked Questions

What is Distributed Generation?

Distributed Generation (DG) is defined as electric generation sited at a customer premises, providing electric energy to the customer load on that site or providing wholesale capacity and energy to the local Utility Distribution Company for use by multiple customers in contiguous distribution substation service areas. The generator size and transmission needs shall be such that the plant or associated transmission lines do not require a Certificate of Environmental Compatibility from the Arizona Corporation Commission (ACC).

What are Distributed Renewable Energy Resources?

Distributed Renewable Energy Resources are applications of appropriate technologies that are located at a customer's premises and that displace conventional energy resources that would otherwise be used to provide electricity to Arizona customers.

TEP provides programs consistent with these definitions and generally refers to these programs as DG programs. For more information on these and other definitions, please visit the ACC's Renewable Energy Standard and Tariff webpage at <http://www.cc.state.az.us/divisions/utilities/electric/environmental.asp>.

What is Net Metering?

Net Metering refers to the production of electricity from a qualifying renewable energy electric generator, such as photovoltaic (PV) panels, used to offset electricity provided by Tucson Electric Power Company (TEP). Customers deemed eligible for participation in TEP's Net Metering Tariff will be required to install a bi-directional meter capable of measuring the flow of electricity to and from the customer's premises. Net Metering customers may buy and sell electricity to and from TEP under the applicable terms and tariff rate. In the event that a Net Metering customer carries a negative balance due to the over-production of electricity for the time period specified in the Net Metering Tariff, the customer's remaining credits will be transitioned to a payment at the applicable wholesale rate, and the customer's balance reset to zero.

No systems may exceed 125% of connected load for that meter, where connected load is defined as the maximum demand divided by 0.6. For more information on Net Metering, please see TEP's Green Energy webpage, which can be found at <http://tep.com/Green/Home/Solar/electric.asp>.

Why is TEP involved with DG?

The ACC, which regulates TEP and utilities like it in Arizona, enacted the Renewable Energy Standard and Tariff (REST) Rules in 2009. These rules require TEP to replace a substantial portion of its retail sales with renewable energy by investing in a variety of projects, including both utility-scale and DG projects. In order to comply with a portion of the REST Rules governing DG projects, TEP may purchase Renewable Energy Credits (REC) from eligible customers through their incentive programs. Under these programs, TEP does not own or build the systems that generate these credits, but rather incents them by purchasing the resulting RECs. Pursuant to the REST Rules, one REC is equivalent to 1 kilowatt hour (kWh). For more information on the ACC's REST Rules, please visit the ACC's REST Rules webpage at <http://www.cc.state.az.us/divisions/utilities/electric/environmental.asp>.

How does TEP get involved with DG?

One way in which TEP supports DG projects is by providing residential and non-residential programs for customers with qualifying renewable energy generators to participate in. These programs include a variety of

ACC approved up-front and performance-based incentive payments by technology. These incentives are the method by which TEP actually purchases a REC. For details, terms, and conditions regarding for each qualifying technology, please see the appropriate sections of this document. Please note that TEP issues incentive payments for RECs; these payments are NOT REBATES. It should also be noted that not every renewable technology system is eligible to receive an incentive.

Who is eligible for the incentive and how do I apply?

Any residential or non-residential customer currently connected to TEP's electric service system who installs a qualifying renewable facility, in compliance with the terms and conditions described herein, may apply to participate in one of TEP's DG programs. Alternatively, any TEP-qualified installer may submit the required DG program application on behalf of a qualifying TEP customer.

What is a TEP-qualified installer?

A TEP-qualified installer is an installer that has been evaluated by TEP personnel and deemed to have met the prerequisites for qualification. In order to become TEP-qualified, each installer must meet certain TEP requirements, including but not limited to annual submittal of the necessary paperwork contained within the installer's package. Each submittal must include, but is not limited to the following: an Installer's Agreement; a current and valid Registrar of Contractor's (ROC) license; detailed information regarding the installing company; and information regarding any sub-contractors, if applicable. TEP will not, under any circumstances, issue or assign incentive payment(s) to an installer who is not TEP-qualified.

Where can I find more information?

For the terms and conditions of participation in any of TEP's DG programs, please consult TEP's Renewable Energy Credit Purchase Plan (RECPP), which can be found below, and online at TEP's Green Energy webpage (<http://tep.com/Green/Home/Solar/electric.asp>). Questions may be directed to (520) 623-7711.

What else do I need to know?

Each of the programs described herein, including incentive amounts and all terms and conditions, are subject to change as dictated by program need and any and all regulatory authorities. Nothing included in TEP's RECPP is intended as a guarantee of funds or qualification for purposes of program participation.

TEP's RECPP does not accommodate non-customer sited projects for any reason. "Solar Farms" or other utility-scale generation projects do not qualify under TEP's RECPP. These projects may participate in TEP's next request for proposals (RFP) for Renewable Energy. Information regarding TEP's next RFP may be found at www.tep.com.

TEP's RECPP does not allow for any aggregated or virtual net metering of a customer's loads under any circumstance. The incentives described herein must meet the definitions of DG and Renewable Energy Resource as defined by the ACC and contained within the Frequently Asked Questions portion of this document.

UP-FRONT INCENTIVES: QUALIFICATIONS, APPLICATIONS, AND RESTRICTIONS

TEP's Up-Front Incentive (UFI) programs are limited to Residential and Small Non-Residential Projects only.

UFI Qualifications

| Qualifying Technology | Size Limit |
|--|--|
| Residential Solar PV | Less than 30 Kilowatts (kW) Direct Current (DC) |
| Residential Hot Water & Space Heating | |
| Residential and Non-Residential Ground Source Heat Pumps | Up to 200 Tons |
| Wind Systems | Less than 1 Megawatt (MW) Alternating Current (AC) |
| Small Non-Residential Solar PV | Less than 70 kW DC |
| Small Non-Residential Hot Water & Space Heating | Less than 400,000 Kilowatt Hours (kWh) of Estimated Annual Savings |
| Non-Residential Daylighting | |
| Non-Residential Pool Heating | |

UFI APPLICATION PROCESS

TEP's UFI application process appears below. TEP requires strict adherence to this process. Any deviation from the requirements below may result in your application being denied. If you are working with an installer or contractor, please ensure that they follow the required processes explained below. TEP will assign payment under its UFI application process to the party that appears on the assignment of payment form. Please work with your installer or contractor prior to beginning the process below to determine who payment should go to.

1. Submittal of the Completed Reservation/Application Package* to TEP.

The Reservation/Application Package includes the following items:

- Renewable Energy Application Package Cover Sheet
- Assignment of Payment Form
- IRS Form W-9
- Up-Front Incentive Renewable Energy Credit Purchase Agreement
- For Solar Water Heating Applications:
 - A recent copy of the SRCC OG300 schematic obtained from the SRCC website that includes in the printed view the annual kWh savings estimated.

* Only the following program applications may be submitted electronically, online at tep.com:

- Residential PV
- Residential Solar Water Heating
- Residential Wind
- Non-Residential Wind

All other program applications, including new construction and solar leasing, require paper applications.

2. Confirmation or Denial of Reservation.

- Once received, TEP will match the online or paper application with the submitted Reservation/Application Package. It is the customer's and/or installer's responsibility to ensure that all forms are filled out completely and correctly. Forms with missing and/or incorrect information are subject to rejection by TEP.
- TEP will evaluate each application for completeness and confirm whether or not reservation funds are available. **All applications are subject to the availability of program funds.** TEP will also verify, where an installer is used, that the installer is a TEP-qualified installer. Provided that the application meets TEP's requirements, and that the installer, if any, is TEP-qualified, and that program funds sufficient to fund the application are available, TEP will issue the customer or installer a reservation confirmation letter and provisionally approve the application. **If no funds are available at the time TEP processes the reservation, TEP will notify the installer or customer and the application will be wait-listed.**

3. Submittal of Jurisdictional Final Inspection.

- Within 120 days from the date of the reservation confirmation letter, customer or installer must submit an application to the appropriate jurisdictional entity (e.g., City of Tucson or Pima County) for a final inspection of the qualifying system. Failure to obtain a jurisdictional final inspection within 180 days of the date of the reservation confirmation letter will result in the revocation of customer's incentive reservation. If this occurs, the customer or installer must reapply to participate in the program.
- In the event that a jurisdictional final inspection is not completed within 180 days of the date of the reservation confirmation letter, and customer or installer provides proof to TEP that a correctly completed application for a jurisdictional final inspection was made within 120 days of the date of the reservation confirmation letter, TEP will neither process or revoke the customer's reservation for 30 days to allow customer time to confirm with the inspecting jurisdiction when the inspection will occur. Provided that the customer provides TEP with an inspection date within those 30 days, the customer's reservation will be honored. If 30 days elapses with no information from the customer, the reservation will be revoked and customer must reapply to participate in the program.
- For all systems other than solar water heating, the inspecting jurisdiction will electronically provide TEP with proof of a passed inspection. For solar water heating systems, the installer or customer must submit proof of a passed final inspection to TEP that includes the installation address, scope of work, and inspection status.

4. Submittal of Certificate of Completion Form.

- For all program applications: once TEP has received the approved jurisdictional final inspection, installer or customer must submit the Certificate of Completion Form. For PV systems, please submit this form electronically to sunshare@tep.com. For solar water heating, please submit this form to finalinspections@tep.com.

5. TEP will inspect the system and set the appropriate meters if required (such as for PV).

6. TEP will process the incentive payment upon successful inspection and mail the check to the party indicated on the assignment of payment form. Assignment of Payment forms may only be submitted once. TEP will not pay incentives without complete and accurate receipt of the required documents.

IMPORTANT NOTES:

1. TEP reserves the right to modify the business process to better serve customers or to increase efficiency. Please refer to www.tep.com for the most up-to-date information.
2. With the exception of minor system modifications during the procurement process (panel wattage changes of less than 10 watts, alternative inverter, et cetera), any material changes to a system made after the application is processed will result in cancellation of the existing application and will require a new online application to be submitted. The reservation request may be denied because the request is not in compliance with program requirements (see specific technical sections below).
3. Project extensions will not be granted except as outline herein.
4. Any reservation packets submitted incorrectly will be cancelled as will their corresponding online application. Reapplication may result in a reduction of incentive or unavailable funding.
5. In 2012, TEP will not purchase RECs from systems installed prior to applying for an incentive from TEP. TEP must receive and approve the application and all associated paperwork prior to the system being installed to receive the incentive ("installed" is defined as the date of the final clearance from the appropriate jurisdiction).
6. In order to participate in the RECPP, installers must have on file with TEP a signed Installer Agreement Form. This form is available in the Installer's Corner at www.tep.com.
7. All applications for projects that are leases will be treated as commercial projects at \$1 per watt.

COMMUNITY SOLAR OPTION:

For customers who do not wish to operate a DG system, TEP offers the Bright Tucson Community Solar Program. The Bright Tucson Community Solar Program offers an easy and affordable way for TEP customers to meet their electric needs with locally generated solar power by purchasing solar power in "blocks" of 150 kilowatt-hours (kWh) per month. A customer may buy some or all of her power through the program. For more information, please see TEP's Green Energy webpage at <http://tep.com/Green/BrightTucson/>.

UP-FRONT INCENTIVE LEVELS FOR SOLAR ELECTRIC RESIDENTIAL PROJECTS 30 kW DC OR LESS AND NON-RESIDENTIAL PROJECTS 70 kW DC OR LESS

The UFIs for eligible customers with residential projects 30 kW DC or less and non-residential projects 70 kW or less are paid in a one-time payment based on the system's designed capacity. Table 1 identifies the incentives available for eligible systems.

**Table 1. Dollar per Watt Incentive for On-Grid Residential Systems Smaller than 30 kW DC
and On-Grid Non-Residential Systems 70 kW DC or Less**

| YEAR | RESIDENTIAL | SMALL NON-RESIDENTIAL | LEASE SYSTEMS |
|---------------|-------------|-----------------------|---------------|
| 2012 | \$1.75 | \$1.50 | \$1.00 |
| Trigger Rate* | \$1.50 | \$1.25 | \$0.75 |

TERMS & RESTRICTIONS

- *If 60% of annual budget is reserved on or before June 30, 2012, the trigger rates will become effective immediately upon notifying the Arizona Corporation Commission and will remain in effect for the remainder of the calendar year.
- On-Grid Residential customers will receive a UFI up to a **cap of 30 kW DC**. If a residential system is installed larger than 30 kW DC, TEP will only provide an incentive payment for the first 30 kW DC.
- On-Grid Small Non-Residential customers will receive a UFI up to a **cap of 70 kW DC**. Small Non-Residential systems larger than 70 kW DC must apply under the large non-residential program.
- The UFI may not exceed 50% of Total System Cost.
- The customer must pay at least 15% of the project cost, after other government incentives (e.g., tax credits) are considered. (See explanation of incentive calculation below.)
- Systems may not be eligible to receive RECPP incentives if other utility incentives are applied.
- As described later in this document, **these incentive levels may be decreased because of sub-optimal system positioning**.
- The incentive amount will be calculated at the time the application is approved for reservation. If federal or state incentives change after the system reservation is approved, the incentive amount reserved will not change as long as the reservation is not cancelled.
- For consumer protection, and in order to minimize program manipulation affecting legitimate solar development, no incentive applications will be accepted where the installed price per watt exceeds \$6.00, or where labor charges are in excess of 200% of the system component costs.
- In return for TEP's payment of a UFI, TEP will be given complete and irrevocable ownership of the Renewable Energy Credits until December 31st of the 20th full calendar year after completion of installation of the system. Operational life during that time frame must be supported by system warranty or planned maintenance schedules.

PROJECT FUNDING

Funds will be made available for reservations on a first-come, first-reserved basis, until annual funding is fully reserved. Reservations which are rejected as a result of insufficient funds will be placed on a waiting list and offered the opportunity to retain their original reservation date for one additional quarter without the need to resubmit application documentation. If the incentive level has changed from the date of the original reservation to the date when the reservation is approved, the new incentive level shall be applied.

TEP will allocate funds to all qualifying technologies applying for residential and non-residential incentives. Non-PV categories may be protected from over-spending in PV at the discretion of TEP Program Managers. This may result in a 10% carve out for technologies other than PV for both classes of projects.

NET METERING

RECPP incentives can be applied to systems designed to serve only the typical load of the customer with whom the incentive agreement has been established. The assessment of that typical load does not preclude the periodic production of electricity in excess of the customer's demand. All projects must comply with ACC Net Metering rules.

PROJECT REQUIREMENTS AFTER INSTALLATION

After completing the installation of a Residential Solar Electric project of 30 kW DC or less, or a Non-Residential Solar Electric project of 70 kW DC or less, the customer must continue to provide information to TEP about the system's performance.

All customer systems receiving UFIs are obligated to include a TEP-supplied production meter, which will report system production to TEP in accordance with the regular meter-reading schedule. TEP, at its option, may perform periodic inspections of the system for operation, metered production, and reporting purposes.

PROHIBITION OF SYSTEM REMOVAL

Neither the Qualifying System nor any component thereof may be removed by either the applicant or future owners or occupants of the property until expiration of the Renewable Energy Credit Agreement or December 31st of the 20th full calendar year following completion of system installation of the renewable energy system. If the Qualifying System or any component thereof is removed by any party in violation of this provision, the customer party to the Renewable Energy Credit Agreement shall immediately reimburse TEP for all incentive amounts paid by TEP to customer or on behalf of customer to an authorized third party.

In addition, if a Qualified System is removed, TEP shall monitor that specific customer site to ensure that an additional incentive is not provided for any new distributed renewable energy resource system on that site until the original Renewable Energy Credit Agreement's contracted operational life of the original system has expired.

ATTACHMENT A
SYSTEM QUALIFICATIONS FOR RESIDENTIAL SOLAR ELECTRIC PROJECTS 30 kW DC OR LESS
AND
NON-RESIDENTIAL SOLAR ELECTRIC PROJECTS 70 kW DC OR LESS

All solar electric generating Customer Systems must meet the following system and installation requirements to qualify for Tucson Electric Power Company's ("TEP" or the "Company") Renewable Energy Credit Purchase Program ("RECPP"). Capitalized terms not defined herein shall have the meanings ascribed to them in the RECPP Agreement.

The following equipment qualifications listed are mandatory requirements which must be met at the time of project commissioning to receive a RECPP incentive. The installation guidance is intended to provide consumers with information on installation and operation practices which are most likely to support achieving the system's designed output. Installation guidance is mandated in order for a project to receive a RECPP incentive, as it does reflect both industry and TEP concurrence on those practices which are important for a technology to best achieve the designed output. In the future, additional installation guidance items may be considered for inclusion as part of the equipment qualifications.

TEP acknowledges that many regulations and site-specific requirements may apply to the installation of renewable energy technologies. TEP agrees that no requirement imposed by these technology criteria shall be imposed in conflict with any other governmental requirements. Any RECPP-based requirement, which is in conflict with a site-specific governmental requirement, shall be detailed in the reservation request. All qualifying systems must adhere to the following requirements in addition to the RECPP program requirements:

REQUIRED EQUIPMENT STANDARDS

1. The Customer System components must be certified as meeting the requirements of IEEE-929 - Recommended Practice for Utility Interface of Photovoltaic Systems.¹
2. Photovoltaic components must be certified by a nationally recognized testing laboratory as meeting the requirements of UL-1703 - Standard for Flat Plate Photovoltaic Modules and Panels Systems and be covered by a non-prorated manufacturer's warranty of at least 20 years.
3. The inverter must be certified as meeting the requirements of IEEE-1547 - Recommended Practice for Utility Interface of Photovoltaic Systems and it must be UL-1741 certified. Inverters must be covered by a manufacturer's warranty of at least ten years.
4. The Customer System design and installation must meet all requirements of the latest edition of the National Electrical Code, including Article 690 and all grounding, conductor, raceway, over-current protection, disconnect and labeling requirements.
5. All other electrical components must be UL listed.
6. The Customer System and installation must meet the requirements of all federal, state and local building codes and have been successfully inspected by the building official having jurisdiction. Accordingly, the installation must be completed in accordance with the requirements of the latest edition of National Electrical Code in effect in the jurisdiction where the installation is being completed (NEC), including,

¹ Some technology-specific criteria reference third party standards. The requirements of those standards are fully applicable when referenced as part of technology specific criteria. TEP recognizes that new standards are likely to develop in the near future for technologies included in the RECPP, and recommends that the new standards are examined for application in this program definition as they become available.

without limitation, Sections 200-6, 210-6, 230-70, 240-3, 250-26, 250-50, 250-122, all of Article 690 pertaining to Solar Photovoltaic Systems, thereof, all as amended and superseded.

7. The Customer System must meet Company and Arizona Corporation Commission interconnection requirements for self-generation equipment. See <http://images.edocket.azcc.gov/docketpdf/0000074361.pdf> for these requirements.

INSTALLATION REQUIREMENTS

1. A grid-connected Residential Customer System must have a total solar array nameplate rating of at least 845 watts AC (1,200 watts DC) and no more than 20,000 watts AC (28,400 watts DC).
2. The Customer System installation must meet TEP's Electric Service Requirements 2011 Edition, Section 1.22, as follows:

"As required by TEP/UES's Interconnection Requirements for Distributed Generation, the customer shall provide and install a disconnect switch to isolate all ungrounded conductors of the generating facility from the TEP/UES system. The switch shall be a gang-operated, load-break device with a visible air-gap in the open position. It shall be rated for the current and voltage requirements of the generating facility and shall be lockable in the open position".
3. The DG utility meter and utility disconnect will be installed within 10' of the main service panel and in a location readily accessible by TEP at all times.
4. Products must be installed according to manufacturers' recommendations.
5. The Customer System photovoltaic panels and modules must face within +/- 100 degrees of true south, and be substantially unshaded from 9 am to 3 pm. System arrays which are facing at an azimuth angle other than optimal as defined or shaded for more than one hour per day will be subject to a reduced amount of buydown payment per Attachment B.
6. The Customer System photovoltaic panels and modules must be fitted at an angle of 0 degrees to 60 degrees from horizontal. System arrays which are fitted with an elevation angle other than optimal as defined will be subject to a reduced amount of buydown payment per Attachment B.
7. For Residential Customer Systems, Company shall furnish a meter, DG meter socket, and AC disconnect switch in accordance with Section 1.22 of TEP's Electric Service Requirements. Company shall install the meter. For Non-Residential customer systems, Company shall furnish and install the meter only. The meter socket and AC disconnect shall be installed in accordance with Section 1.22 of TEP's Electric Service Requirements. Installer must notify TEP of wiring configuration so that Company may provide the appropriate 3-phase meter.
8. Total voltage drop on the DC and AC wiring from the furthest PV module to the AC meter will not exceed 2%.
9. PV panels and DC to AC inverter will be installed with sufficient clearance to allow for proper ventilation and cooling. At a minimum, manufacturer clearance recommendations will be observed. PV modules may be mounted less than 4 inches above any surface and an additional inch of clearance for each foot of continuous array surface area beyond four feet in the direction parallel to the mounting support surface, only in cases when arrays are flush-mounted to roof pitch. Otherwise, the four-inch spacing and an additional inch of clearance for each foot of continuous array surface area minimum is required.

10. Storage Batteries are not allowed as part of the Customer System unless the inverter is a separate component and TEP can locate the DG utility meter at the inverter's output. If configured otherwise, battery losses will adversely reflect in the annual AC metered energy output. Customer's solar energy generation and energy storage system must meet the requirements of 2 and 3 of this Attachment A.
11. The DC to AC inverter used must provide maximum power point tracking for the full voltage and current range expected from the photovoltaic panels used and the temperature and solar insolation conditions expected in Tucson, Arizona.
12. The DC to AC inverter must be capable of adjusting to "sun splash" from all possible combinations of cloud fringe effects without interruption of electric production.
13. TEP reserves the right to modify standards as technology changes on a case by case basis, pending independent laboratory analysis, Professional Engineer ("PE") stamp, or TEP engineering analysis.

GENERAL REQUIREMENTS

1. All Customer System installations must be completed in a professional, workmanlike and safe manner.
2. Installation must have been made after January 1, 1997.
3. The Customer must be connected to the Company's electric grid and be net-metered customer.
4. Systems must be permitted and inspected by the jurisdiction having authority over construction projects in the customer's locale.
5. The project must comply with applicable local, state, and federal regulations.
6. Products must be installed according to manufacturer's recommendations.
7. Installations must meet applicable governmental statutes, codes, ordinances, and accepted engineering and installation practices.
8. All major system components must be new and must not have been previously placed in service in any other location or for any other application.
9. All renewable electricity generation systems must include a dedicated performance meter (provided by TEP) which allows for measurement of system energy production. Certain other non-electric renewable energy production systems will require customer supplied metering for Performance Based Incentive ("PBI") payment calculation purposes.
10. PV system components shall be properly labeled, including AC & DC disconnects (if present), solar generation meter, service panel (outside cover), and breakers inside the service panel.
11. The system will in all cases have a material and full labor warranty of at least five years.

ATTACHMENT B

SUNSHARE SOLAR ELECTRIC OFF-ANGLE & SHADING ANNUAL ENERGY DERATING CHART FOR RESIDENTIAL SYSTEMS OF 30 kW DC OR LESS AND SMALL NON-RESIDENTIAL SYSTEMS OF 70 kW DC OR LESS

TEP Up-Front Incentive (UFI) Payment - PV Off-Angle/Azimuth & Shading Derating Chart

| | | Array Azimuth Angle from Due South | | | | | | | | | | | | | | | | | |
|------------------------------|------|------------------------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| | | East | 80 | 70 | 60 | 50 | 40 | 30 | 20 | 30 | 40 | 50 | 60 | 70 | 80 | 90 | 100 | 110 | West |
| Array Angle Above Horizontal | 0 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| | 1 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| | 2 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| | 3 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| | 4 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| | 5 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| | 6 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| | 7 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| | 8 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| | 9 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| | 10 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| | 11 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| | 12 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| | 13 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| | 14 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| | 15 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| 16 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 17 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 18 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 19 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 20 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 21 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 22 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 23 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 24 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 25 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 26 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 27 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 28 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 29 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 30 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 31 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 32 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 33 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 34 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 35 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 36 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 37 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 38 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 39 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 40 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 41 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 42 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 43 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 44 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 45 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 46 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 47 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 48 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 49 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 50 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 51 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 52 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 53 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 54 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 55 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 56 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |

Notes:
 0 degrees tilt is 180W to account for shading
 2/12/12 of a tilt to be used at 0% tilt for higher tilt temps of four percent

Array Shading

If both off-angle and shading conditions apply, multiply the off-angle derating factor with the shading derating factor to obtain the array derating factor for the Up-Front Incentive (UFI) payment calculation.

| | | | | | | | | | | | | |
|-------------------------------|------|------|------|-----|-----|-----|-----|-----|-----|-----|--|--|
| Maximum Morning Shaded Hours | 0 | 1 | 6 | 1 | 0 | 2 | 1 | 2 | 2 | 0 | | |
| Maximum Evening Shaded Hours | 0 | 0 | 1 | 1 | 2 | 0 | 2 | 1 | 2 | 3 | | |
| Percentage of Annual Energy = | 100% | 100% | 100% | 95% | 90% | 90% | 85% | 85% | 75% | 75% | | |

Qualifying systems using Building Integrated Photovoltaic (BIPV) modules of total array capacity of 5 kW DC or less shall receive 90% of the UFI incentive value for PV systems listed in Attachment A. Systems using BIPV modules of total array capacity of greater than 5 kW DC shall be derated based on heating unless the applicant can demonstrate optimal performance.

PERFORMANCE BASED INCENTIVES: QUALIFICATIONS, APPLICATIONS, AND RESTRICTIONS

TEP's Performance Based Incentive (PBI) programs are limited to Large Non-Residential Projects only.

PBI Qualifications

| Non-Residential Qualifying Technology | Size Limit |
|---|--|
| Solar PV | Greater than 70 Kilowatts (kW) Direct Current (DC) |
| Biomass/Biogas (Electric) | |
| Biomass/Biogas – Combined Heat and Power (CHP) (Electric) | |
| Biomass/Biogas – CHP (Thermal) | |
| Biomass/Biogas (Thermal) | |
| Biomass/Biogas (Cooling) | |
| Geothermal – (Electric) | |
| Geothermal – (Thermal) | |
| Small Hydro | |
| Solar Space Cooling | |

PBI APPLICATION PROCESS

TEP's PBI application process appears below. TEP requires strict adherence to this process. Any deviation from the requirements below may result in your application being denied. If you are working with an installer or contractor, please ensure that they follow the required processes explained below. TEP will assign payment under its PBI application process to the party that appears on the assignment of payment form. Please work with your installer or contractor prior to beginning the process below to determine who payment should go to.

1. Submittal of the Completed Performance Based Incentive Application to TEP.

The submitted application must include a proposed renewable energy credit (REC) term, price, and payout term in years.

2. Holding of the Completed Application and REC Proposal until Auction Time.

TEP will hold all applications until the next applicable auction time (March or June depending upon when the application was received). Once the auction process begins, TEP will open half of its approved budget for the year and funds will be awarded to the most competitive projects based on the following criteria:

- Actual REC Price Requested
- Annual Incentive Amount Requested
- Terms of Payment and REC Transfer
- Overall REC Price

3. Process for Project Selection.

If a project is selected, the customer will be notified and an acceptance packet will be mailed to them. The acceptance packet will include the following:

- REC Agreement
- New Supplier Fact Sheet (provides information on entity receiving incentive payment)

- IRS Form W-9
- Interconnection Application
- Assignment of Payment Form
- Information Regarding Demand-Based Rates (if applicable)

4. Submittal of Acceptance Paperwork.

Within 180 days from the date the acceptance packet is mailed to the customer, customer must return all paperwork included as part of the acceptance packet to TEP as proof of advancement of project.

5. Project Completion.

All accepted projects must be complete within 365 days from the date the acceptance packet is mailed to the customer. A project is not considered complete until proof of jurisdictional final inspection from the appropriate local jurisdiction (e.g., City of Tucson or Pima County) is submitted to TEP. Once TEP receives proof of jurisdictional final inspection it will perform a commissioning of the completed system. Incentive payments will not issue until *after* the first full quarter after completion; incentive payments will continue thereafter on a quarterly basis.

IMPORTANT NOTES:

1. TEP does not provide any meter sockets, disconnects, et cetera for non-residential installations.
2. If a project is not accepted, it will remain in the queue for the next award period. If no award period remains in that year, the customer will be notified and asked to resubmit in the next calendar year.
3. Reservation extensions must be submitted in writing and include the customer's signature. Reservation extensions will only be granted where warranted. TEP reserves the right to evaluate each reservation extension request on a case-by-case basis, for project hardships encountered that are not due to customer fault.
4. TEP requires an Interconnection Inspection for all Grid-Tied Renewable Electrical Systems greater than 70 kW DC).
 - Non-residential grid-tied qualifying systems of electrical generating capacity must submit to and pass an interconnection inspection before the system can be commissioned. TEP conducts the interconnection inspection and will notify the applicant of the results of the inspection. If the system passes the interconnection inspection, the application retains the reservation. An applicant may retain its reservation even if the system fails the initial interconnection inspection so long as the deficiency is remedied within 30 days from the date of the interconnection inspection.

PERFORMANCE BASED INCENTIVE LEVELS FOR NON-RESIDENTIAL SOLAR ELECTRIC PROJECTS GREATER THAN 70 kW DC

Non-residential Solar Electric systems greater than 70 kW DC are eligible for performance-based incentives (“PBI”). The PBI allows the customer to collect incentive payments in direct relation to the actual system production. Table 2 identifies the incentives available for non-residential Solar Electric systems larger than 70 kW DC.

In all cases, incentive values listed in Table 2 are maximum values. PBIs are awarded through a bid process, which is discussed later in this section. Applicants are encouraged to submit bids requesting incentive amounts less than the maximums listed. Bids requesting a lower level of incentive payment than the maximum will have an increased chance of acceptance in the allocation ranking process. Projects will be reviewed twice during the year, once at the end of March and again at the end of June.

Table 2. Maximum PBIs for Non-Residential Projects Greater Than 70 kW DC

| 70 – 200 kW DC | | | |
|------------------------------|----------------|----------------|----------------|
| YEAR | 10-YEAR | 15-YEAR | 20-YEAR |
| 2012 | \$0.125 | \$0.125 | \$0.125 |
| 201 – 400 kW DC | | | |
| YEAR | 10-YEAR | 15-YEAR | 20-YEAR |
| 2012 | \$0.105 | \$0.105 | \$0.105 |
| 401 kW DC and Greater | | | |
| YEAR | 10-YEAR | 15-YEAR | 20-YEAR |
| 2012 | \$0.91 | \$0.91 | \$0.91 |

TERMS & RESTRICTIONS

- There is no incentive cap for non-residential systems other than program funding considerations.
- A PBI cannot exceed 50% of the real project costs, defined as the undiscounted total system cost plus acceptable financing charges. Acceptable finance charges are finance charges used for the PBI incentive cap calculation and cannot exceed the current prime interest rate plus 5%. Financing charges must be disclosed as part of the commissioning package, if not disclosed before.
- The customer must pay at least 15% of the project cost (as defined above), after other government incentives (e.g., tax credits) are considered. (See explanation of incentive calculation below.)
- Systems may not be eligible to receive RECPP incentives if other utility incentives are applied.
- The incentive amount will be calculated at the time the application is approved for reservation. If federal or state incentives change during the period of time after the reservation approval, the incentive amount reserved will not be changed as long as the reservation is not cancelled.
- In return for TEP’s payment of a PBI, TEP will receive complete and irrevocable ownership of the Renewable Energy Credits for the full duration of the PBI Agreement. The agreement duration must fully coincide with the PBI payment schedule and the system must be supported by system warranty or planned maintenance schedules for the term of the agreement.

PROJECT FUNDING

Non-residential funds will be committed as bids are accepted; funds may be placed in reserve for later in the year. As a result, the budget may be committed before the end of the year. Funds will be made available to projects based on a ranking generated by lowest expected life cycle credit purchase cost, as provided in the application and verified by TEP, as well as likelihood of construction. Projects submitted to the utility for reservation will be ranked based on a calculated index value for purposes of allocating non-residential funds as proposed in the application and verified by TEP. Lowest lifecycle cost projects will be funded first. Indexing of the non-residential projects will be performed based on the verified incentive values and duration of the proposed agreement in the application for that project. In addition, the bid evaluator assesses the likelihood that the project will be completed. Projects with higher incentive payments result in a higher expected life cycle credit purchase cost and projects that produce more kWh result in a lower expected life cycle credit purchase cost. In the event of a tie in the ranking, when the program would be fully subscribed if both projects were given reservation status, funds will be awarded based on the date of receipt of the completed reservation request.

Reservation requests will reviewed by the utility twice per year. Once reservation requests are fully ranked, notification of reservation approvals and rejections will be made in conformance with the rankings and available funding.

Reservations which are rejected as a result of insufficient program funds may elect to carry forward into the next period and retain the original reservation date. The election must be made at the time of the original application.

NET METERING

RECPP incentives can be applied to systems designed to serve only the typical load of the customer with whom the incentive agreement has been established. The assessment of that typical load does not preclude the periodic production of electricity in excess of the customer's demand. All projects must comply with ACC Net Metering Rules.

PROJECT REQUIREMENTS AFTER INSTALLATION

All customer systems receiving incentives are obligated to include a TEP-supplied production meter, which will report system production to TEP in accordance with the regular meter-reading schedule. TEP, at its option, may perform periodic inspections of the system for operation, metered production, and reporting purposes.

INSTALLER QUALIFICATIONS

All systems receiving incentives under the RECPP must be installed by a qualified installer. The following requirements must be submitted by the applicant as part of the reservation request. TEP will verify that the installer meets the following minimum qualifications prior to confirming a reservation request:

- The installer must possess a valid license on file with the Arizona Registrar of Contractors ("AZROC") with a license classification appropriate for the technology being installed. Alternatively, the installer must identify use of a contractor holding an appropriate license on file with the AZROC for the technology being installed. A copy of the AZROC license must be provided as part of the reservation request.
- The installer must possess an Arizona business license that is active and in good standing.

- Installers may request that the above information be retained on file with TEP; however, under this option the installer must certify that the information on file remains current with the submission of each reservation request. Information on file must be renewed yearly.

PROHIBITION OF SYSTEM REMOVAL

Neither the Qualifying System nor any component thereof may be removed by any party until expiration of the applicable Renewable Energy Credit Agreement or the last day of the final month of the final full calendar year of the applicable incentive payment term. If the Qualifying System or any component thereof is removed by any party in violation of this provision, the customer party to the Renewable Energy Credit Agreement shall immediately reimburse TEP for all incentive amounts paid by TEP to customer or on behalf of customer to an authorized third party.

In addition, if a Qualified System is removed, TEP shall monitor that specific customer site to ensure that an additional incentive is not provided for any new distributed renewable energy resource system on that site until the original Renewable Energy Credit Agreement's contracted operational life of the original system has expired.

TEP shall attempt to monitor the number of missing or non-working distributed generation systems and shall summarize its observations in its annual Compliance Report.

ATTACHMENT A
QUALIFICATIONS FOR NON-RESIDENTIAL SOLAR ELECTRIC SYSTEMS
GREATER THAN 70 kW DC

All solar electric generating Customer Systems must meet the following system and installation requirements at the time of project commissioning to qualify for Tucson Electric Power Company's ("TEP" or the "Company") Renewable Energy Credit Purchase Program ("RECPP"). Capitalized terms not defined herein shall have the meanings ascribed to them in the RECPP Agreement.

The following equipment qualifications listed are mandatory requirements which must be met at the time of project commissioning to receive a RECPP incentive. The installation guidance is intended to provide consumers with information on installation and operation practices which are most likely to support achieving the system's designed output. Installation guidance is mandated in order for a project to receive a RECPP incentive, as it does reflect both industry and TEP concurrence on those practices which are important for a technology to best achieve the designed output. In the future, additional installation guidance items may be considered for inclusion as part of the equipment qualifications.

TEP acknowledges that many regulations and site-specific requirements may apply to the installation of renewable energy technologies. TEP agrees that no requirement imposed by these technology criteria shall be imposed in conflict with any other governmental requirements. Any RECPP-based requirement which is in conflict with a site-specific governmental requirement shall be detailed in the reservation request. All qualifying systems must adhere to the following requirements in addition to the RECPP program requirements:

EQUIPMENT STANDARDS

1. The Customer System components must be certified as meeting the requirements of IEEE-929 - Recommended Practice for Utility Interface of Photovoltaic Systems.²
2. Photovoltaic components must be certified by a nationally-recognized testing laboratory as meeting the requirements of UL-1703 - Standard for Flat Plate Photovoltaic Modules and Panels Systems; they must also be covered by a non-prorated manufacturer's warranty of at least 20 years.
3. The Customer System design and installation must meet all requirements of the latest edition of the National Electrical Code, including Article 690 and all grounding, conductor, raceway, over-current protection, disconnect and labeling requirements.
4. The inverter must be certified as meeting the requirements of IEEE-1547 - Recommended Practice for Utility Interface of Photovoltaic Systems and it must be UL-1741 certified. Inverters must be covered by a manufacturer's warranty of at least ten years.
5. All other electrical components must be UL listed.
6. The Customer System and installation must meet the requirements of all federal, state and local building codes and have been successfully inspected by the building official having jurisdiction. Accordingly, the installation must be completed in accordance with the requirements of the latest edition of National

² Some technology-specific criteria reference third party standards. The requirements of those standards are fully applicable when referenced as part of technology specific criteria. TEP recognizes that new standards are likely to develop in the near future for technologies included in the RECPP and recommends that the new standards are examined for application in this program definition as they become available.

Electrical Code in effect in the jurisdiction where the installation is being completed (NEC), including, without limitation, Sections 200-6, 210-6, 230-70, 240-3, 250-26, 250-50, 250-122, all of Article 690 pertaining to Solar Photovoltaic Systems, thereof, all as amended and superseded.

7. The Customer System must meet Company and Arizona Corporation Commission interconnection requirements for self-generation equipment.
See <http://images.edocket.azcc.gov/docketpdf/0000074361.pdf> for these requirements.

INSTALLATION REQUIREMENTS

1. Any Non-Residential Customer System must have a total solar array nameplate rating of more than 1,200 watts DC.
2. The Customer System installation must meet TEP's Electric Service Requirements 2011 Edition, Section 1.22, as follows:

“As required by TEP/UES's Interconnection Requirements for Distributed Generation, the customer shall provide and install a disconnect switch to isolate all ungrounded conductors of the generating facility from the TEP/UES system. The switch shall be a gang-operated, load-break device with a visible air-gap in the open position. It shall be rated for the current and voltage requirements of the generating facility and shall be lockable in the open position”.
3. The DG utility meter and utility disconnect will be installed within 10' of the main service panel and in a location readily accessible by TEP at all times.
4. Products must be installed according to manufacturer's recommendations.
5. For Non-Residential Customer Systems, Company shall provide the meter only, to be installed in a Customer supplied meter socket to be installed in a readily accessible outdoor location by the Customer between the DC to AC inverter and the connection to the over-current device in/or adjacent to the Customer's electric service panel.
6. Total voltage drop on the DC and AC wiring from the furthest PV module to the AC meter will not exceed 2%.
7. PV panels and DC to AC inverter will be installed with sufficient clearance to allow for proper ventilation and cooling. At a minimum, manufacturer clearance recommendations will be observed. PV modules may be mounted less than 4 inches above any surface and an additional inch of clearance for each foot of continuous array surface area beyond four feet in the direction parallel to the mounting support surface only in cases when arrays are flush-mounted to roof pitch. Otherwise, the four-inch spacing and an additional inch of clearance for each foot of continuous array surface area minimum is required.
8. Storage Batteries are not allowed as part of the Customer System unless the inverter is a separate component and TEP can locate the DG utility meter at the inverter's output. If configured otherwise, battery losses will adversely reflect in the annual AC metered energy output.
9. The DC to AC inverter used must provide maximum power point tracking for the full voltage and current range expected from the photovoltaic panels used and the temperature and solar insolation conditions expected in Tucson, Arizona.
10. The DC to AC inverter must be capable of adjusting to “sun splash” from all possible combinations of cloud fringe effects without interruption of electric production.

GENERAL REQUIREMENTS

1. All Customer System installations must be completed in a professional, workmanlike and safe manner.
2. Installation must have been made after January 1, 1997.
3. The Customer must be connected to the Company's electric grid.
4. Systems must be permitted and inspected by the jurisdiction having authority over construction projects in the customer's locale.
5. All major system components must be new and must not have been previously placed in service in any other location or for any other application.
6. The project must comply with applicable local, state, and federal regulations.
7. Products must be installed according to manufacturers' recommendations.
8. Installations must meet applicable governmental statutes, codes, ordinances, and accepted engineering and installation practices.
9. All renewable electricity generation systems must include a dedicated performance meter (provided by TEP) which allows for measurement of system energy production. Certain other non-electric renewable energy production systems, noted below, will require customer supplied metering for PBI payment calculation purposes.
10. PV system components shall be properly labeled, including AC & DC disconnects (if present), solar generation meter, service panel (outside cover), and breakers inside the service panel.
11. If the qualifying system is grid-tied, the system must meet Arizona Corporation Commission Interconnection Requirements for Self-Generation Equipment. See <http://images.edocket.azcc.gov/docketpdf/0000074361.pdf> for these requirements.
12. For systems above 300kW, transfer-trip protection requirements will be enforced. The customer will be responsible for the costs associated with implementing these requirements.
13. The system will in all cases have a material and full labor warranty of at least five years.

REQUIREMENTS SPECIFIC TO NON-RESIDENTIAL PV SYSTEMS GREATER THAN 70 kW DC

1. The Non-Residential Customer System shall be operating, substantially complete and have produced an AC output at least 70% of the total array nameplate DC rating at PTC.³
2. Operation, Maintenance and Repair. The Customer shall be solely responsible for the operation, maintenance and repair of the Non-Residential Customer System and any and all costs and expenses associated therewith. Company will notify Customer of all Non-Residential Customer System repairs the Company determines are reasonably necessary to support proper continued electrical production of the Non-Residential Customer System. The Customer will notify the Company within five (5) business days of its receipt of any such Company repair notice if the repair requires the installation of a new inverter and/or PV module. The Customer shall complete any such repair that affects the Non-Residential Customer System performance and does not require the purchase of a new inverter or PV module(s) within five (5) business days of the Company's notice of the need for such repair. For any such repair that does require the purchase and installation of a new inverter and/or PV module, the

³ PTC stands for "PVUSA Test Conditions." These standards are also referenced by the California Energy Commission. PTC conditions are based upon 1,000 W/m² solar irradiance, 20 degrees Celsius ambient temperature, and 1 m/s wind speed.

Customer shall promptly commence and diligently pursue such repair to completion, provided, in no event shall such repair take more than thirty (30) days to complete. At all times while Company is receiving the environmental credits from the Non-Residential Customer System, Customer shall clean all PV modules in the Non-Residential Customer System as necessary to keep them free from foreign material that would visibly obscure the modules, including any dirt and/or oils.

3. Non-Residential Customer System Security. At all times during and after installation of the Non-Residential Customer System, the Customer shall use commercially reasonable efforts to provide adequate security to prevent damage or vandalism to the Non-Residential Customer System.
4. Company shall provide Customer with a revenue grade AC meter to be installed between the Non-Residential Customer System and the grid interconnection. This meter will not be used for billing, but shall be used for any official Non-Residential Customer System production output data. Company will retain ownership of the meter and be responsible for its repair if needed.
5. Customer shall provide Company with all documentation reasonably requested by Company to demonstrate to the Commission that any environmental credits transferred under the Agreement were derived from an eligible technology, that the kWh generated are accurately reported and that the environmental credits have not expired or been used by any other entity for any purpose.
6. If certified proof cannot be provided of complete galvanic isolation of any and all DC from the AC output of the inverter(s) used in the Non-Residential Customer System through IEEE-1547 certification of the inverter, the Non-Residential Customer System shall include an isolation transformer installed between the inverter(s) and the grid interconnection. The transformer will be rated at full load continuous operation at 50 degrees C. at 125% of nameplate DC array rating and have an efficiency rating at nameplate DC array rating power of at least 98% as tested. The transformer will have at least one tap each of 2.5% and 5% both above and below the nominal voltage tap.

**INCENTIVE LEVELS FOR
RESIDENTIAL AND SMALL NON-RESIDENTIAL SOLAR WATER HEATING
AND SPACE HEATING SMALLER THAN 400,000 kWh EQUIVALENT
ANNUAL PRODUCTION PER YEAR, NON-RESIDENTIAL SOLAR POOL HEATING**

Solar water heating and space heating in residential and small non-residential and non-residential solar pool heating applications are eligible for up-front incentives (“UFIs”). UFIs are those incentives where the customer receives a one-time payment based on the system’s designed capacity. Table 3 identifies the incentives available for residential and small non-residential solar water heating and space heating systems.

Table 3. UFIs for Residential and Small Non-Residential Solar Water Heating and Space Heating

| Year | Residential Incentive Level** | Small Non-Residential Incentive Level** |
|-------------|--------------------------------------|--|
| 2012 | \$0.50/kWh (max \$1,750) | \$0.50/kWh (max \$200,000) |

**Indicates estimated annual kWh production in first year.

TERMS & RESTRICTIONS

- Energy savings rating is based on the SRCC OG-300 published rating or the TEP design analysis. The rate applies to forecast/measured first year energy savings only.
- Small non-residential customers will receive a UFI up to a collector system size with output smaller than a 400,000 kWh equivalent. If a small non-residential system is installed beyond that threshold, it must apply under the large non-residential program.
- The UFI may not exceed 50% of total System Cost.
- The customer must pay at least 15% of the project cost, after other government incentives (e.g., tax credits) are considered. (See explanation of incentive calculation below.)
- Systems may not be eligible to receive RECPP incentives if other utility incentives are applied.
- The incentive amount will be calculated at the time the application is approved for reservation. If federal or state incentives change after the reservation has been approved, the incentive amount reserved will not change as long as the reservation is not cancelled.
- In return for TEP’s payment of a UFI, TEP will be given complete and irrevocable ownership of the Renewable Energy Credits until December 31st of the 20th full calendar year after completion of installation of the system. Operational life during that time frame must be supported by system warranty or planned maintenance schedules.

**HOW TO DETERMINE THE ANNUAL kWh SAVINGS FOR
NON-RESIDENTIAL SOLAR POOL HEATERS:**

1. Determine whether or not the system has an OG-100 rating. If it does not, it is not eligible for the program.
2. If it does have an OG-100 rating, find an OG-300 rating for comparable set of collectors. Use Tucson data to find rated annual heat production for domestic water. (This calculation assumes 300 days on which useful heat is produced.)

3. Multiply the annual savings determined by the OG-300 rating by (180/300). This adjustment reflects the fact that pool heaters in Tucson realistically only produce useful heat on 180 days each year. The result is anticipated annual kWh savings for the unit. This is multiplied by PBI level to calculate annual incentive. TEP will retain the right to meter the system.

PROJECT FUNDING

Funds will be made available for reservations on a first-come, first-reserved basis, until annual funding is reserved. Reservations which are rejected as a result of insufficient funds will be placed on a waiting list and offered the opportunity to retain their original reservation date for one additional quarter without the need to resubmit application documentation. If the incentive level has changed from the date of the original reservation to the date when the reservation is approved, the new incentive level shall be applied.

TEP will allocate funds to all qualifying technologies applying for residential and non-residential incentives. Non-PV categories may be protected from over spending in PV at the discretion of TEP Program Managers. This may result in a 10% carve out for technologies other than PV for both classes of projects.

INSTALLER QUALIFICATIONS

All systems receiving incentives under the RECPP must be installed by a qualified installer. The following requirements must be submitted by the applicant as part of the reservation request. TEP will verify that the installer meets the following minimum qualifications prior to confirming a reservation request:

- The installer must possess a valid license on file with the Arizona Registrar of Contractors ("AZROC") with a license classification appropriate for the technology being installed. Alternatively, the installer must identify use of a contractor holding an appropriate license on file with the AZROC for the technology being installed. A copy of the AZROC license must be provided as part of the reservation request.
- The installer must possess an Arizona business license that is active and in good standing.
- Installers may request that the above information be retained on file with TEP; however, under this option the installer must certify that the information on file remains current with the submission of each reservation request. Information on file must be renewed yearly.

PROHIBITION OF SYSTEM REMOVAL

Neither the Qualifying System nor any component thereof may be removed by either the applicant or future owners or occupants of the property until expiration of the Renewable Energy Credit Agreement or December 31st of the 20th full calendar year following completion of system installation of the renewable energy system. If the Qualifying System or any component thereof is removed by any party in violation of this provision, the customer party to the Renewable Energy Credit Agreement shall immediately reimburse TEP for all incentive amounts paid by TEP to customer or on behalf of customer to an authorized third party.

In addition, if a Qualified System is removed, TEP shall monitor that specific customer site to ensure that an additional incentive is not provided for any new distributed renewable energy resource system on that site until the original Renewable Energy Credit Agreement's contracted operational life of the original system has expired.

TEP shall attempt to monitor the number of missing or non-working distributed generation systems and shall summarize its observations in its annual Compliance Report.

ATTACHMENT A
QUALIFICATIONS FOR RESIDENTIAL AND SMALL NON-RESIDENTIAL
SOLAR WATER HEATING AND SPACE HEATING

The following equipment qualifications listed are mandatory requirements which must be met at the time of project commissioning to receive a RECPP incentive. The installation guidance is intended to provide consumers with information on installation and operation practices which are most likely to support achieving the system's designed output. Installation guidance is mandated in order for a project to receive a RECPP incentive, as it does reflect both industry and TEP concurrence on those practices which are important for a technology to best achieve the designed output. In the future, additional installation guidance items may be considered for inclusion as part of the equipment qualifications.

TEP acknowledges that many regulations and site-specific requirements may apply to the installation of renewable energy technologies. TEP agrees that no requirement imposed by these technology criteria shall be imposed in conflict with any other governmental requirements. Any RECPP-based requirement which is in conflict with a site-specific governmental requirement shall be detailed in the reservation request. All qualifying systems must adhere to the following requirements in addition to the RECPP program requirements:

EQUIPMENT SPECIFICATIONS

1. Domestic Solar Water Heating systems will be rated by the SRCC and meet the OG-300 system standard. Systems that include OG-100 collectors, but are not certified under OG-300, will need to be verified by submitting either a testing certification for a substantially similar system prepared by a publicly funded laboratory or by submitting an engineering report stamped by a registered third-party professional engineer detailing annual energy savings. Solar Space Heating systems will utilize OG-100 collectors.
2. Solar Space Heating systems will be sized in conformance with the Solar Space Heating Incentive Calculation Procedure (Attachment B.) Compliance reporting production will be based on the design energy savings submitted at time of application.
3. Active, open-loop systems are not eligible for RECPP incentives except for active, open-loop systems that have a proven technology or design that limits scaling and internal corrosion of system piping, and includes appropriate automatic methods for freeze protection and prevents stagnation temperatures that exceed 250 degrees Fahrenheit ("F"). under all conditions at the location of installation. Details disclosing conformance with this exception shall be submitted as part of the manufacturer's verification documentation.
4. The 'high' limit on all Domestic Water Heating controllers shall be set no higher than 160 degrees F.
5. Active thermal storage for solar space heating systems shall use water as the storage element.
6. Contractors must provide a minimum of a five year equipment warranty as provided by the system manufacturer, including a minimum warranty period of five years for repair/replacement service to the customer.
7. Domestic Water Heating systems that are installed as an addition to an existing system or are submitted as a customer designed system or not certified to OG-300 must be specifically reviewed and approved by the utility.
8. The solar collector, heat exchangers, and storage elements shall have an equipment warranty of at least 5 years to qualify for a UFI and at least five years to qualify either for a UFI or for a PBI.

INSTALLATION GUIDANCE

1. The system shall be installed with a horizontal tilt angle between 20 degrees and 60 degrees (40 and 60 degrees for space heating applications), and an azimuth angle of +/- 60 degrees of due south (+/- 20 degrees for space heating applications). It is recommended that collectors be positioned for optimum winter heating conditions at a minimum tilt angle of 45 degrees above horizontal, or as recommended by the manufacturer for the specific collector type and geographic location of installation. Azimuth or tilt angles outside these parameters may be reviewed and approved by the utility, at their discretion.
2. All systems should be installed such that the energy collection system is substantially unshaded and should have substantially unobstructed exposure to direct sunlight between the hours of 9:00 a.m. and 3:00 p.m. Solar Hot Water de-rating chart may be used to adjust incentive level based upon affected output due to shading.
3. Heat exchange fluid in glycol systems should be tested, flushed and refilled with new fluid as necessary or at a minimum every five years or sooner per manufacturer's recommendations.
4. It is recommended that the anode rod be checked and replaced per manufacturer's recommendations, but no less frequently than every five years.
5. It is recommended that the system design include a timer, switch, and a temperature sensor on the backup element of the storage tank.
6. The collectors and storage tank should be in close proximity to the backup system and house distribution system to avoid excessive pressure or temperature losses.
7. It is recommended that in areas where water quality problems are reported to have reduced the expected life of a solar water heater, that a water quality test is performed for each residence to screen for materials that through interaction with the materials of the proposed solar water heating system may reduce the expected operational life of the system components. The customer should consider contacting the manufacturer to determine if warranty or operational life will be affected.
8. In areas subject to snow accumulation, sufficient clearance will be provided to allow a 12" snowfall to be shed from a solar collector without shadowing any part of the collector.
9. Ball valves shall be used throughout the system. Gate valves shall not be used in any new installation systems.
10. Pipes carrying heated fluids shall be insulated for thermal energy conservation as well as personnel protection when exposed to ambient conditions, although this is highly recommended in either situation.
11. TEP reserves the right to modify standards as technology changes on a case by case basis, pending independent laboratory analysis, Professional Engineer ("PE") stamp, or TEP engineering analysis.

GENERAL REQUIREMENTS

1. The project must comply with applicable local, state, and federal regulations.
2. Products must be installed according to manufacturers' recommendations.
3. Installations must meet applicable governmental statutes, codes, ordinances, and accepted engineering and installation practices.
4. Systems must be permitted and inspected by the jurisdiction having authority over construction projects in the customer's locale on new installations.

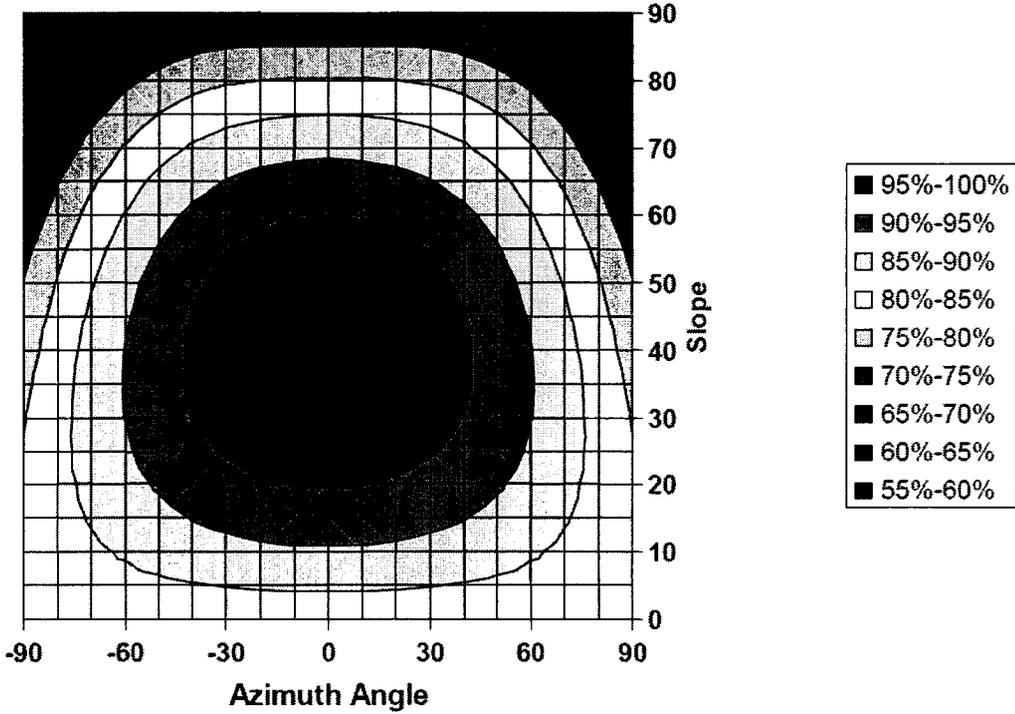
5. All major system components must be new and must not have been previously placed in service in any other location or for any other application.
6. All renewable electricity generation systems must include a dedicated performance meter (provided by TEP) which allows for measurement of system energy production. Certain other non-electric renewable energy production systems, noted below, will require customer supplied metering for PBI payment calculation purposes.
7. If the qualifying system is grid-tied, the system must meet Arizona Corporation Commission Interconnection Requirements for Self-Generation Equipment. For these requirements, see ACC Decision Number 69674 located at <http://images.edocket.azcc.gov/docketpdf/0000074361.pdf>
8. Existing systems that are replacing major components may be submitted and reviewed by the utility for the retrofit category of the program's incentive.

ATTACHMENT B
SOLAR SPACE HEATING UFI INCENTIVE CALCULATION PROCEDURE

TEP requires specific design documents for solar water/space heating installations. TEP will review the design, compare to similarly situated installations, require data logging/monitoring to be used, and may consult industry experts in determining the actual kWh saved by such systems. TEP reserves the right to change review procedures as technologies advance and/or review protocol is improved.

ATTACHMENT C
SOLAR HOT WATER OFF-ANGLE AND SHADING ANNUAL ENERGY DERATING CHART

I
Orientation Effect on Annual Output



If the SHW system falls outside of the 95-100% performance band, then the UFI for the system will be derated. The incentive will be derated based on the decrease in annual energy output anticipated by this chart.

**INCENTIVE LEVELS FOR
LARGE NON-RESIDENTIAL SOLAR WATER HEATING SYSTEMS AND
SPACE HEATING SYSTEMS WITH ANNUAL PRODUCTION OUTPUT
LARGER THAN 400,000 KWH EQUIVALENT**

Solar water heating and space heating in large non-residential applications are eligible for performance-based incentives (PBIs). In the case of solar water heating and space heating, the PBI allows the customer to collect incentive payments in relation to the actual system production. Table 4 identifies the maximum incentives available for large non-residential solar water heating and space heating systems.

In all cases, incentive values listed in Table 4 are maximum values. PBIs are awarded through a bid process, which is discussed later in this section. Applicants are encouraged to submit bids requesting incentive amounts less than the maximums listed. Bids requesting a lower level of incentive payment than the maximum will have an increased chance of acceptance in the allocation ranking process.

Table 4. Maximum Incentives for Large Non-Residential Solar Water Heating and Space Heating for REC Agreements of the Specified Duration**

| Year | 10-year REC Agreement | 15-year REC Agreement | 20-year REC Agreement |
|-------------|------------------------------|------------------------------|------------------------------|
| 2012 | \$0.057/kWh | \$0.052/kWh | \$0.048/kWh |

**Incentive level is based on the \$/kWh equivalent output.

TERMS & RESTRICTIONS

- There is no incentive cap for non-residential systems other than annual program funding considerations.
- A PBI cannot exceed 50% of the real project costs, defined as the undiscounted total system cost plus acceptable financing charges. Acceptable finance charges are finance charges used for the PBI incentive cap calculation and cannot exceed the current prime interest rate plus 5%. Financing charges must be disclosed as part of the commissioning package, if not disclosed before.
- The customer must pay at least 15% of the project cost, after other government incentives (e.g., tax credits) are considered. (See explanation of incentive calculation below.)
- Systems may not be eligible to receive RECPP incentives if other utility incentives are applied.
- TEP will require and perform specific design analysis and review on project design estimates.
- The bid evaluator reserves the right to award incentives to solar thermal projects other than those that meet the specifications outlined in Attachment A. Incentives in these cases will be determined by the bid evaluator.
- The incentive amount will be calculated at the time the application is approved for reservation. If federal or state incentives change after the reservation is approved, the incentive amount reserved will not change as long as the reservation is not cancelled.
- In return for TEP's payment of a PBI, TEP will receive complete and irrevocable ownership of the Renewable Energy Credits for the full duration of the PBI Agreement. The agreement duration must fully coincide with the PBI payment schedule and the system must be supported by system warranty or planned maintenance schedules for the term of the agreement.

PROJECT FUNDING

Non-residential funds will be committed as bids are accepted; funds may be placed in reserve for later in the year. As a result, the budget may be committed before the end of the year. Funds will be made available to projects based on a ranking generated by lowest expected life cycle credit purchase cost as provided in the application and verified by TEP. Projects submitted to the utility for reservation will be ranked based on a calculated index value for purposes of allocating non-residential funds as proposed in the application and verified by TEP. Lowest lifecycle cost projects will be funded first. Indexing of the non-residential projects will be performed based on the verified incentive values and duration of the proposed agreement in the application for that project. In addition, the bid evaluator assesses the likelihood that the project will be completed. Projects with higher incentive payments result in a higher expected life cycle credit purchase cost and projects that produce more kWh result in a lower expected life cycle credit purchase cost. In the event of a tie in the ranking, when the program would be fully subscribed if both projects were given reservation status, funds will be awarded based on the date of receipt of the completed reservation request.

Reservation requests will be reviewed by the utility on a monthly basis. Once reservation requests are fully ranked each month, notification of reservation approvals and rejections will be made in conformance with the rankings and available funding.

Funds unused in one period will be equally divided among the remaining periods in that year. Funds allocated to non-residential projects will not roll forward from one year to the next. Reservations which are rejected as a result of insufficient program funds may elect to carry forward into the next period and retain the original reservation date. The election must be made at the time of the original application.

INSTALLER QUALIFICATIONS

All systems receiving incentives under the RECPP must be installed by a qualified installer. The following requirements must be submitted by the applicant as part of the reservation request. TEP will verify that the installer meets the following minimum qualifications prior to confirming a reservation request:

- The installer must possess a valid license on file with the Arizona Registrar of Contractors (“AZROC”) with a license classification appropriate for the technology being installed. Alternatively, the installer must identify use of a contractor holding an appropriate license on file with the AZROC for the technology being installed. A copy of the AZROC license must be provided as part of the reservation request.
- The installer must possess an Arizona business license that is active and in good standing.
- Installers may request that the above information be retained on file with TEP; however, under this option the installer must certify that the information on file remains current with the submission of each reservation request. Information on file must be renewed yearly.

PROHIBITION OF SYSTEM REMOVAL

Neither the Qualifying System nor any component thereof may be removed by any party until expiration of the applicable Renewable Energy Credit Agreement or the last day of the final month of the final full calendar year of the applicable incentive payment term. If the Qualifying System or any component thereof is removed by any party in violation of this provision, the customer party to the Renewable Energy Credit Agreement shall immediately reimburse TEP for all incentive amounts paid by TEP to customer or on behalf of customer to an authorized third party.

In addition, if a Qualified System is removed, TEP shall monitor that specific customer site to ensure that an additional incentive is not provided for any new distributed renewable energy resource system on that site until the original Renewable Energy Credit Agreement's contracted operational life of the original system has expired.

TEP shall attempt to monitor the number of missing or non-working distributed generation systems and shall summarize its observations in its annual Compliance Report.

ATTACHMENT A
QUALIFICATIONS FOR LARGE NON-RESIDENTIAL SOLAR WATER HEATING
AND SPACE HEATING

The following equipment qualifications listed are mandatory requirements which must be met at the time of project commissioning to receive a RECPP incentive. The installation guidance is intended to provide consumers with information on installation and operation practices which are most likely to support achieving the system's designed output. Installation guidance is mandated in order for a project to receive a RECPP incentive, as it does reflect both industry and TEP concurrence on those practices which are important for a technology to best achieve the designed output. In the future, additional installation guidance items may be considered for inclusion as part of the equipment qualifications.

TEP acknowledges that many regulations and site-specific requirements may apply to the installation of renewable energy technologies. TEP agrees that no requirement imposed by these technology criteria shall be imposed in conflict with any other governmental requirements. Any RECPP-based requirement which is in conflict with a site-specific governmental requirement shall be detailed in the reservation request. All qualifying systems must adhere to the following requirements in addition to the RECPP program requirements:

EQUIPMENT QUALIFICATIONS

1. Solar collector panels used will have a SRCC OG-100 certification or publicly-funded laboratory documentation showing the panel energy output under controlled and replicable test conditions.
2. If annual energy production is expected to exceed 10,000 kWh or equivalent, the system must include a dedicated performance customer-supplied meter to allow for monitoring of the amount of useful heat produced. Otherwise, compliance reporting production will be based on the design energy savings submitted at time of application.
3. Energy savings and designed output for the system will be verified by submitting either a testing certification for a substantially similar system prepared by a publicly funded laboratory or by submitting an engineering report stamped by a registered professional engineer. The engineering report shall provide a description of the system and major components, design criteria and performance expectations, applicable standards and/or codes, and a brief history of components in similar applications.
4. The solar collector, heat exchangers and storage elements shall have an equipment warranty of at least five years to qualify for a PBI.
5. The system will in all cases have a material and full labor warranty of at least five years.

INSTALLATION GUIDANCE

1. The horizontal tilt angle of the collector panels should be between 20 and 60 degrees (30 and 60 degrees for space heating applications) and an azimuth angle +/- 45 degrees of south. Azimuth or tilt angles outside these parameters may be reviewed and approved by the utility, at their discretion
2. All systems should be installed such that the energy collection system is substantially unshaded and should have substantially unobstructed exposure to direct sunlight between the hours of 9:00 a.m. and 3:00 p.m. Solar Hot Water de-rating chart may be used to adjust incentive level based upon affected output due to shading.
3. The system installation should comply with the design manual.

4. Heat exchange fluid in glycol systems should be tested, flushed and refilled with new fluid as necessary or at a minimum every five years or sooner per manufacturer's recommendations.
5. It is recommended that the anode rod be checked and replaced per manufacturer's recommendations, but no less frequently than every five years.
6. It is recommended that the system design include a timer, switch, and a temperature sensor on the backup element of the storage tank.
7. It is recommended that in areas where water quality problems are reported to have reduced the expected life of a solar water heater, that a water quality test is performed for each residence to screen for materials that through interaction with the materials of the proposed solar water heating system may reduce the expected operational life of the system components. The customer should consider contacting the manufacturer to determine if warranty or operational life will be affected.
8. In areas subject to snow accumulation, sufficient clearance will be provided to allow a 12" snowfall to be shed from a solar collector without shadowing any part of the collector.
9. Each system shall have a comprehensive operation and maintenance manual at the customer's site, which includes a spare parts list, data sheets and flow diagrams indicating operating temperatures and pressures, maintenance schedules and description of testing methods and each customer must complete an initial start up and operation training review with the contractor at the time of system start up
10. TEP reserves the right to modify standards as technology changes on a case by case basis, pending independent laboratory analysis, Professional Engineer ("PE") stamp, or TEP engineering analysis

GENERAL REQUIREMENTS

1. The project must comply with applicable local, state, and federal regulations.
2. Products must be installed according to manufacturers' recommendations.
3. Installations must meet applicable governmental statutes, codes, ordinances, and accepted engineering and installation practices.
4. Systems must be permitted and inspected by the jurisdiction having authority over construction projects in the customer's locale.
5. All major system components must be new and must not have been previously placed in service in any other location or for any other application.
6. All renewable electricity generation systems must include a dedicated performance meter (provided by TEP) which allows for measurement of system energy production. Certain other non-electric renewable energy production systems, noted below, will require customer supplied metering for PBI payment calculation purposes.
7. If the qualifying system is grid-tied, the system must meet Arizona Corporation Commission Interconnection Requirements for Self-Generation Equipment.

INCENTIVE LEVELS FOR GROUND SOURCE HEAT PUMPS - RESIDENTIAL AND NON-RESIDENTIAL APPLICATIONS

Residential and small non-residential ground source heat pump (GSHP) systems are eligible for up-front incentives (“UFIs”). UFIs are those incentives where the customer receives a one-time payment based on the system’s designed capacity. Table 5 identifies the incentives available for GSHP systems.

Table 5. UFIs for Residential and Non-Residential Ground Source Heat Pump Systems

| Year | Incentive Level |
|---|-----------------|
| 2012 | \$500/ton |
| <p>*Indicates that the incentive has not yet been approved by the Arizona Corporation Commission and may change pending ACC approval.</p> <p style="text-align: center;">TERMS & RESTRICTIONS</p> <ul style="list-style-type: none"> • Customers will receive a UFI up to a cap of 200 tons. • The UFI may not exceed 50% of total System Cost. • The customer must pay at least 15% of the project cost, after other government incentives (e.g., tax credits) are considered. (See explanation of incentive calculation below.) • Systems may not be eligible to receive RECPP incentives if other utility incentives are applied. • The incentive amount will be calculated at the time the application is approved for reservation. If federal or state incentives change after the reservation is approved, the incentive amount reserved will not change as long as the reservation is not cancelled. • In return for TEP’s payment of a UFI, TEP will be given complete and irrevocable ownership of the Renewable Energy Credits until December 31st of the 20th full calendar year after completion of installation of the system. Operational life during that time frame must be supported by system warranty or planned maintenance schedules. | |

PROJECT FUNDING

Funds will be made available for reservations on a first-come, first-reserved basis, until annual funding is reserved. Reservations which are rejected as a result of insufficient funds will be placed on a waiting list and offered the opportunity to retain their original reservation date for one additional quarter without the need to resubmit application documentation. If the incentive level has changed from the date of the original reservation to the date when the reservation is approved, the new incentive level shall be applied.

PROJECT REQUIREMENTS AFTER INSTALLATION

After completing the installation of a small distributed energy system, the customer must continue to provide information to TEP about the system’s performance.

All customers receiving renewable energy self-generation incentives are obligated to report system production to TEP in accordance with the reporting schedule established in the program agreement between TEP and the customer. TEP, at its option, may perform periodic inspection of the system for operation, metered production, and reporting purposes.

INSTALLER QUALIFICATIONS

All systems receiving incentives under the RECPP must be installed by a qualified installer. The following requirements must be submitted by the applicant as part of the reservation request. TEP will verify that the installer meets the following minimum qualifications prior to confirming a reservation request:

- The installer must possess a valid license on file with the Arizona Registrar of Contractors (“AZROC”) with a license classification appropriate for the technology being installed. Alternatively, the installer must identify use of a contractor holding an appropriate license on file with the AZROC for the technology being installed. A copy of the AZROC license must be provided as part of the reservation request.
- The installer must possess an Arizona business license that is active and in good standing.
- Installers may request that the above information be retained on file with TEP; however, under this option the installer must certify that the information on file remains current with the submission of each reservation request. Information on file must be renewed yearly.

PROHIBITION OF SYSTEM REMOVAL

Neither the Qualifying System nor any component thereof may be removed by either the applicant or future owners or occupants of the property until expiration of the Renewable Energy Credit Agreement or December 31st of the 20th full calendar year following completion of system installation of the renewable energy system. If the Qualifying System or any component thereof is removed by any party in violation of this provision, the customer party to the Renewable Energy Credit Agreement shall immediately reimburse TEP for all incentive amounts paid by TEP to customer or on behalf of customer to an authorized third party.

In addition, if a Qualified System is removed, TEP shall monitor that specific customer site to ensure that an additional incentive is not provided for any new distributed renewable energy resource system on that site until the original Renewable Energy Credit Agreement’s contracted operational life of the original system has expired.

TEP shall attempt to monitor the number of missing or non-working distributed generation systems and shall summarize its observations in its annual Compliance Report.

ATTACHMENT A

QUALIFICATIONS FOR RESIDENTIAL AND NON-RESIDENTIAL GROUND SOURCE HEAT PUMP SYSTEMS

The following equipment qualifications listed are mandatory requirements which must be met at the time of project commissioning to receive a RECPP incentive. The installation guidance is intended to provide consumers with information on installation and operation practices which are most likely to support achieving the system's designed output. Installation guidance is mandated in order for a project to receive a RECPP incentive, as it does reflect both industry and TEP concurrence on those practices which are important for a technology to best achieve the designed output. In the future, additional installation guidance items may be considered for inclusion as part of the equipment qualifications.

TEP acknowledges that many regulations and site-specific requirements may apply to the installation of renewable energy technologies. TEP agrees that no requirement imposed by these technology criteria shall be imposed in conflict with any other governmental requirements. Any RECPP-based requirement which is in conflict with a site-specific governmental requirement shall be detailed in the reservation request. All qualifying systems must adhere to the following requirements in addition to the RECPP program requirements:

EQUIPMENT QUALIFICATIONS

1. Geothermal system installations involving a regulated boiler or pressure vessel are required to comply with all Arizona state boiler regulations; provide a qualifying boiler inspection identification number; and keep all applicable permits in good standing.
2. Energy savings and designed output for the system will be verified by submitting either a testing certification for a substantially similar system prepared by a publicly-funded laboratory or by submitting an engineering report stamped by a registered third-party professional engineer. The engineering report shall provide a description of the system and major components, design criteria and performance expectations, applicable standards and/or codes, and a brief history of components in similar applications.
3. Energy production for space heating, space cooling and process heating will be calculated as one kWh of energy per 3,415 BTU of useful heat delivered by the system as measured by a dedicated heat delivery measuring meter and used by the building space or process.
4. The system will have a material and labor warranty of at least five years.
5. The system must meet Arizona DEQ environmental standards.
6. The most current Energy Star Standards must be achieved. These can be found at <http://www.energystar.gov/index.cfm?c=geoheat.prcritgeoheatpumps>.

INSTALLATION GUIDANCE

Because of the individual nature of geothermal systems, care should be taken to make sure the system complies with all applicable permitting and regulatory requirements including, but not limited to, air emission standards and air permit regulations.

GENERAL REQUIREMENTS

1. The project must comply with applicable local, state, and federal regulations.
2. Products must be installed according to manufacturers' recommendations.

3. Installations must meet applicable governmental statutes, codes, ordinances, and accepted engineering and installation practices.
4. Systems must be permitted and inspected by the jurisdiction having authority over construction projects in the customer's locale.
5. All major system components must be new and must not have been previously placed in service in any other location or for any other application.
6. All renewable electricity generation systems must include a dedicated performance meter (provided by TEP) which allows for measurement of system energy production. Certain other non-electric renewable energy production systems, noted below, will require customer supplied metering for PBI payment calculation purposes.
7. If the qualifying system is grid-tied, the system must meet Arizona Corporation Commission Interconnection Requirements for Self-Generation Equipment.

INCENTIVE LEVELS FOR WIND SYSTEMS SMALLER THAN 1 MW

Tucson Electric Power Company (“TEP” or the “Company”) is committed to assisting our customers in developing their own renewable generation resources, through a balanced and supportive renewable energy distributed generation incentive program. Our goal is to create a program that will provide incentives for affordable, environmentally sensitive, customer-sited renewable energy generation systems to supplement TEP customer’s energy needs. A properly designed system, matched to a customer’s energy use, will provide a reduction in utility bills through the use of renewable resources. This program reflects our commitment to reduce the cost of developing renewable energy resources.

Wind systems smaller than 1 MW are eligible for up-front incentives (“UFIs”). UFIs are those incentives where the customer receives a one-time payment based on the system’s designed capacity. Table 6 identifies the incentives available for wind systems smaller than 1 MW.

Table 6. UFIs for Small Wind Systems

| YEAR | ON-GRID INCENTIVE LEVEL |
|--|-------------------------|
| 2012 | \$1.25/W AC |
| TERMS & RESTRICTIONS | |
| <ul style="list-style-type: none"> • TEP customers will receive a UFI up to a cap of 1 MW. If a system is installed larger than 1 MW, it must apply under the utility-scale program. • The UFI may not exceed 50% of total System Cost. • The customer must pay at least 15% of the project cost, after other government incentives (e.g., tax credits) are considered. (See explanation of incentive calculation below.) • Systems may not be eligible to receive RECPP incentives if other utility incentives are applied. • The incentive amount will be calculated at the time the application is approved for reservation. If federal or state incentives change after the reservation is approved, the incentive amount reserved will not change as long as the reservation is not cancelled. • In return for TEP’s payment of a UFI, TEP will be given complete and irrevocable ownership of the Renewable Energy Credits until December 31st of the 20th full calendar year after completion of installation of the system. Operational life during that time frame must be supported by system warranty or planned maintenance schedules. | |

PROJECT FUNDING

Funds will be made available for reservations on a first-come, first-reserved basis, until annual funding is reserved. Reservations which are rejected as a result of insufficient funds will be placed on a waiting list without the need to resubmit application documentation. If the incentive level has changed from the date of the original reservation to the date when the reservation is approved, the new incentive level shall be applied.

NET METERING

All projects must comply with ACC net metering rules.

PROJECT REQUIREMENTS AFTER INSTALLATION

After completing the installation of a small wind project, the customer must continue to provide information to TEP about the system's performance.

All customer systems receiving renewable energy self-generation incentives are obligated to include a TEP-supplied production meter, which will report system production to TEP in accordance with the regular meter-reading schedule. TEP, at its option, may perform periodic inspection of the system for operation, metered production, and reporting purposes.

INSTALLER QUALIFICATIONS

All systems receiving incentives under the RECPP must be installed by a qualified installer. The following requirements must be submitted by the applicant as part of the reservation request. TEP will verify that the installer meets the following minimum qualifications prior to confirming a reservation request:

- The installer must possess a valid license on file with the Arizona Registrar of Contractors ("AZROC") with a license classification appropriate for the technology being installed. Alternatively, the installer must identify use of a contractor holding an appropriate license on file with the AZROC for the technology being installed. A copy of the AZROC license must be provided as part of the reservation request.
- The installer must possess an Arizona business license that is active and in good standing.
- Installers may request that the above information be retained on file with TEP; however, under this option the installer must certify that the information on file remains current with the submission of each reservation request. Information on file must be renewed yearly.

PROHIBITION OF SYSTEM REMOVAL

Neither the Qualifying System nor any component thereof may be removed by either the applicant or future owners or occupants of the property until expiration of the Renewable Energy Credit Agreement or December 31st of the 20th full calendar year following completion of system installation of the renewable energy system. If the Qualifying System or any component thereof is removed by any party in violation of this provision, the customer party to the Renewable Energy Credit Agreement shall immediately reimburse TEP for all incentive amounts paid by TEP to customer or on behalf of customer to an authorized third party.

In addition, if a Qualified System is removed, TEP shall monitor that specific customer site to ensure that an additional incentive is not provided for any new distributed renewable energy resource system on that site until the original Renewable Energy Credit Agreement's contracted operational life of the original system has expired.

TEP shall attempt to monitor the number of missing or non-working distributed generation systems and shall summarize its observations in its annual Compliance Report.

ATTACHMENT A

QUALIFICATIONS FOR WIND SYSTEMS SMALLER THAN 1 MW

A small wind generator is a system with a nameplate capacity rating of One MW or less. The technology criteria described below are intended for small wind generators with a nameplate rating of 50 kW or less. Larger systems will be required to submit a detailed package describing site selection, energy production modeling, and an engineered system design and installation report.

The following equipment qualifications listed are mandatory requirements which must be met at the time of project commissioning to receive a RECPP incentive. The installation guidance is intended to provide consumers with information on installation and operation practices which are most likely to support achieving the system's designed output. Installation guidance is mandated in order for a project to receive a RECPP incentive, as it does reflect both industry and TEP concurrence on those practices which are important for a technology to best achieve the designed output. In the future, additional installation guidance items may be considered for inclusion as part of the equipment qualifications.

TEP acknowledges that many regulations and site-specific requirements may apply to the installation of renewable energy technologies. TEP agrees that no requirement imposed by these technology criteria shall be imposed in conflict with any other governmental requirements. Any RECPP-based requirement which is in conflict with a site-specific governmental requirement shall be detailed in the reservation request. All qualifying systems must adhere to the following requirements in addition to the RECPP program requirements:

EQUIPMENT QUALIFICATIONS

1. Eligible small wind systems must be certified and nameplate rated by the Consumer Energy Center ("CEC")⁴. See www.consumerenergycenter.org/erprebate/equipment.html for a list of certified generators. For grid tied or off-grid wind generators where an inverter is used, the CEC listed nameplate rating of the wind generator will be multiplied by the CEC approved weighted efficiency percentage listed for the inverter in the "List of Eligible Inverters" at www.consumerenergycenter.org/cgi-bin/eligible_inverters.cgi to calculate the wind turbine nameplate rating for use in determining the UFI payment.⁵
2. Grid connected inverters used as part of the system shall carry a UL listing certifying full compliance with Underwriter's Laboratory ("UL")-1741.
3. A system must include a dedicated performance meter (provided by TEP) installed to allow for measurement of the amount of electricity produced.
4. The performance meter and utility disconnect for grid tied systems will be installed in a location readily accessible by TEP during normal business hours.
5. The tower used in the installation must be designed by an Arizona registered engineer and must be suitable for use with the wind generator. Tower installation must be designed and supervised by individuals familiar with local geotechnical conditions.
6. To receive a UFI, the wind generator and system must be covered by a manufacturer's warranty of at least 5 years. In all cases, the wind system will have a material and labor warranty of at least five years.

⁴ TEP recommends review of the SWCC standards for rating small wind generators once they become available for purposes of supplanting the CEC requirement in this Technology Criterion.

⁵ Inverter outputs are rated in dc Watts and must be converted to ac Watts for incentive calculation purposes.

INSTALLATION GUIDANCE

1. Location: a wind turbine hub should be at least 20 feet above any surrounding object and at least 28 feet above the ground within a 250-foot radius. Wind generators should be installed in locations with an elevation at or above the general elevation of the surrounding terrain.
2. Lot Size: should be one-half acre at minimum. Municipalities and public facilities such as schools and libraries are exempt from the minimum lot size requirements.

GENERAL REQUIREMENTS

1. The project must comply with applicable local, state, and federal regulations.
2. Products must be installed according to manufacturers' recommendations.
3. Installations must meet applicable governmental statutes, codes, ordinances, and accepted engineering and installation practices.
4. Systems must be permitted and inspected by the jurisdiction having authority over construction projects in the customer's locale.
5. All major system components must be new and must not have been previously placed in service in any other location or for any other application.
6. All renewable electricity generation systems must include a dedicated performance meter (provided by TEP) which allows for measurement of system energy production. Certain other non-electric renewable energy production systems, noted below, will require customer supplied metering for PBI payment calculation purposes.
7. Wind system components shall be properly labeled, including AC & DC disconnects (if present), wind generation meter, service panel (outside cover), and breakers inside the service panel.
8. If the qualifying system is grid-tied, the system must meet Arizona Corporation Commission Interconnection Requirements for Self-Generation Equipment.
See <http://images.edocket.azcc.gov/docketpdf/0000074361.pdf> for these requirements.

INCENTIVE LEVELS FOR NON-RESIDENTIAL SOLAR DAYLIGHTING

Non-residential solar daylighting systems are eligible for up-front incentives (“UFIs”). The UFI allows the customer to collect incentive payments in direct relation to the actual system production. Table 7 identifies the incentives available for non-residential daylighting systems.

Table 7. UFIs for Non-Residential Daylighting Systems

| Year | Incentive Level |
|--|--|
| 2012 | \$0.18/kWh savings during first five years |
| TERMS & RESTRICTIONS | |
| <ul style="list-style-type: none"> • The per-kWh incentive applies only to estimated energy savings during the first five years of project operation. • The UFI may not exceed 50% of total System Cost. • The customer must pay at least 15% of the project cost, after other government incentives (e.g., tax credits) are considered. (See explanation of incentive calculation below.) • Systems may not be eligible to receive RECPP incentives if other utility incentives are applied. • As described later in this document, these incentive levels may be decreased because of sub-optimal system positioning. • The incentive amount will be calculated at the time the application is approved for reservation. If federal or state incentives change after the reservation is approved, the incentive amount reserved will not change as long as the reservation is not cancelled. • In return for TEP’s payment of a UFI, TEP will be given complete and irrevocable ownership of the Renewable Energy Credits until December 31st of the 20th full calendar year after completion of installation of the system. Operational life during that time frame must be supported by system warranty or planned maintenance schedules. | |

PROJECT FUNDING

Funds will be made available for reservations on a first-come, first-reserved basis, until annual funding is reserved. Reservations which are rejected as a result of insufficient funds will be placed on a waiting list and offered the opportunity to retain their original reservation date for one additional quarter without the need to resubmit application documentation. If the incentive level has changed from the date of the original reservation to the date when the reservation is approved, the new incentive level shall be applied.

Funds unused in one period will be equally divided among the remaining periods in that year. Funds allocated to non-residential projects will not roll forward from one year to the next. Reservations which are rejected as a result of insufficient program funds may elect to carry forward into the next period and retain the original reservation date. The election must be made at the time of the original application.

INSTALLER QUALIFICATIONS

All systems receiving incentives under the RECPP must be installed by a qualified installer. The following requirements must be submitted by the applicant as part of the reservation request. TEP will verify that the installer meets the following minimum qualifications prior to confirming a reservation request:

- The installer must possess a valid license on file with the Arizona Registrar of Contractors (“AZROC”) with a license classification appropriate for the technology being installed. Alternatively, the installer must identify use of a contractor holding an appropriate license on file with the AZROC for the technology being installed. A copy of the AZROC license must be provided as part of the reservation request.
- The installer must possess an Arizona business license that is active and in good standing.
- Installers may request that the above information be retained on file with TEP; however, under this option the installer must certify that the information on file remains current with the submission of each reservation request. Information on file must be renewed yearly.

PROHIBITION OF SYSTEM REMOVAL

Neither the Qualifying System nor any component thereof may be removed by either the applicant or future owners or occupants of the property until expiration of the Renewable Energy Credit Agreement or December 31st of the 20th full calendar year following completion of system installation of the renewable energy system. If the Qualifying System or any component thereof is removed by any party in violation of this provision, the customer party to the Renewable Energy Credit Agreement shall immediately reimburse TEP for all incentive amounts paid by TEP to customer or on behalf of customer to an authorized third party.

In addition, if a Qualified System is removed, TEP shall monitor that specific customer site to ensure that an additional incentive is not provided for any new distributed renewable energy resource system on that site until the original Renewable Energy Credit Agreement’s contracted operational life of the original system has expired.

TEP shall attempt to monitor the number of missing or non-working distributed generation systems and shall summarize its observations in its annual Compliance Report.

ATTACHMENT A

QUALIFICATIONS FOR NON-RESIDENTIAL SOLAR DAYLIGHTING

The following equipment qualifications listed are mandatory requirements which must be met at the time of project commissioning to receive a RECPP incentive. The installation guidance is intended to provide consumers with information on installation and operation practices which are most likely to support achieving the system's designed output. Installation guidance is mandated in order for a project to receive a RECPP incentive, as it does reflect both industry and TEP concurrence on those practices which are important for a technology to best achieve the designed output. In the future, additional installation guidance items may be considered for inclusion as part of the equipment qualifications.

TEP acknowledges that many regulations and site-specific requirements may apply to the installation of renewable energy technologies. TEP agrees that no requirement imposed by these technology criteria shall be imposed in conflict with any other governmental requirements. Any RECPP-based requirement, which is in conflict with a site-specific governmental requirement, shall be detailed in the reservation request. All qualifying systems must adhere to the following requirements in addition to the RECPP program requirements:

EQUIPMENT QUALIFICATIONS

All systems shall include the following components as part of the day lighting system:

1. Skylights must adhere to the 2009 International Energy Conservation Code with regard to the U-factor and solar heat gain coefficient and must have a minimum visible transmittance based on the CPUC Savings by Design program (Note: U-value and SHGC ratings should be based on a 20 degree ratings, now standard through the NFRC):
 - Maximum U-factor of 0.75
 - Maximum solar heat gain coefficient of 0.35
 - Minimum visible transmittance of 0.45
2. Skylight can be in a toplighting configuration only.
3. Skylight area may not exceed 3% of the gross roof area.
4. Skylights must be certified by the National Fenestration Rating Council ("NFRC").
5. If artificial lighting systems remain a part of the installation, the system shall include automated lighting control(s) which are programmed to keep electric lights off/dimmed during daylight hours of sufficient solar insolation to provide minimum design illumination levels.
6. The system will have a material and labor warranty of at least five years.

INSTALLATION GUIDANCE

All systems should be installed such that the skylight dome is substantially unshaded and have substantially unobstructed exposure to direct sunlight between the hours of 9:00 a.m. and 3:00 p.m.

GENERAL QUALIFICATIONS

1. The project must comply with applicable local, state, and federal regulations.
2. Products must be installed according to manufacturers' recommendations.
3. Installations must meet applicable governmental statutes, codes, ordinances, and accepted engineering and installation practices.

4. Systems must be permitted and inspected by the jurisdiction having authority over construction projects in the customer's locale.
5. All major system components must be new and must not have been previously placed in service in any other location or for any other application.
6. All renewable electricity generation systems must include a dedicated performance meter (provided by TEP) which allows for measurement of system energy production. Certain other non-electric renewable energy production systems, noted below, will require customer supplied metering for PBI payment calculation purposes.
7. If the qualifying system is grid-tied, the system must meet Arizona Corporation Commission Interconnection Requirements for Self-Generation Equipment. See <http://images.edocket.azcc.gov/docketpdf/0000074361.pdf> for these requirements.

**INCENTIVE LEVELS FOR
ADDITIONAL TECHNOLOGIES WITH PRESCRIPTIVE INCENTIVES:**

(1) NON-RESIDENTIAL BIOMASS/BIOGAS OR GEOTHERMAL SPACE HEATING, PROCESS HEATING, OR SPACE COOLING; (2) BIOMASS/BIOGAS, HYDRO OR GEOTHERMAL ELECTRIC; AND (3) SOLAR SPACE COOLING

The additional distributed energy technologies in residential and small non-residential applications are eligible for performance-based incentives (“PBIs”). The PBI allows the customer to collect incentive payments in direct relation to the actual system production. These incentive levels are specific to each of the groups of technologies. Table 8 summarizes the incentive levels for these technologies for REC agreements signed in 2012.

In all cases, incentive values listed in Table 8 are awarded through a bid process, which is discussed later in this section. Applicants are encouraged to submit bids requesting incentive amounts less than the maximums listed. Bids requesting a lower level of incentive payment than the maximum will have an increased chance of acceptance in the allocation ranking process.

Table 8. Maximum Incentives for Additional Technologies for 2012

| TECHNOLOGY/APPLICATION | 10-YEAR REC AGREEMENT SIGNED IN 2012 (\$/KWH)* | 15-YEAR REC AGREEMENT SIGNED IN 2012 (\$/KWH)* | 20-YEAR REC AGREEMENT SIGNED IN 2012 (\$/KWH)* |
|---------------------------------|---|---|---|
| Biomass/Biogas (Electric) | \$0.060 | \$0.056 | \$0.054 |
| Biomass/Biogas – CHP (Electric) | \$0.035 | \$0.032 | \$0.031 |
| Biomass/Biogas – CHP (Thermal) | \$0.018 | \$0.017 | \$0.016 |
| Biomass/Biogas (thermal) | \$0.015 | \$0.014 | \$0.013 |
| Biomass/Biogas (cooling) | \$0.032 | \$0.030 | \$0.029 |
| Geothermal – (electric) | \$0.024 | \$0.022 | \$0.022 |
| Geothermal – (thermal) | \$0.048 | \$0.045 | \$0.043 |
| Small Hydro | \$0.060 | \$0.056 | \$0.054 |
| Solar Space Cooling | \$0.090 | \$0.085 | \$0.080 |

*Indicates in first year savings.

TERMS & RESTRICTIONS

- There is no incentive cap for non-residential systems other than annual program funding considerations.
- A PBI cannot exceed 50% of the real project costs, defined as the undiscounted total system cost plus acceptable financing charges. Acceptable finance charges are finance charges used for the PBI incentive cap calculation and cannot exceed the current prime interest rate plus 5%. Financing charges must be disclosed as part of the commissioning package, if not disclosed before.
- The customer must pay at least 15% of the project cost, after other government incentives (e.g., tax credits) are considered. (See explanation of incentive calculation below.)
- The CHP incentives may be used in combination for the appropriate components of one system.
- The solar space heating and cooling incentives may be used in combination for the appropriate components of the system.
- Systems may not be eligible to receive RECPP incentives if other utility incentives are applied.

- System Cost for a solar space heating system will not include the cost of any passive thermal storage or the cost of the building heating system itself. It will include the cost of new materials and installation of active thermal storage, expansion tanks, controls, tempering valves, piping, vents, drains, safety valves and all freeze protection.
- The incentive amount will be calculated at the time the application is approved for reservation. If federal or state incentives change after the reservation is approved, the incentive amount reserved will not change as long as the reservation is not cancelled.
- In return for TEP's payment of a PBI, TEP will receive complete and irrevocable ownership of the Renewable Energy Credits for the full duration of the PBI Agreement. The agreement duration must fully coincide with the PBI payment schedule and the system must be supported by system warranty or planned maintenance schedules for the term of the agreement.

PROJECT FUNDING

Non-residential funds will be committed as bids are accepted; funds may be placed in reserve for later in the year. As a result, the budget may be committed before the end of the year. Funds will be made available to projects based on a ranking generated by lowest expected life cycle credit purchase cost as provided in the application and verified by TEP, as well as likelihood of construction. Projects submitted to the utility for reservation will be ranked based on a calculated index value for purposes of allocating non-residential funds as proposed in the application and verified by TEP. Lowest lifecycle cost projects will be funded first. Indexing of the non-residential projects will be performed based on the verified incentive values and duration of the proposed agreement in the application for that project. In addition, the bid evaluator assesses the likelihood that the project will be completed. Projects with higher incentive payments result in a higher expected life cycle credit purchase cost and projects that produce more kWh result in a lower expected life cycle credit purchase cost. In the event of a tie in the ranking, when the program would be fully subscribed if both projects were given reservation status, funds will be awarded based on the date of receipt of the completed reservation request.

Reservation requests will reviewed by the utility on a monthly basis. Once reservation requests are fully ranked each month, notification of reservation approvals and rejections will be made in conformance with the rankings and available funding.

Funds unused in one period will be equally divided among the remaining periods in that year. Funds allocated to non-residential projects will not roll forward from one year to the next. Reservations which are rejected as a result of insufficient program funds may elect to carry forward into the next period and retain the original reservation date. The election must be made at the time of the original application.

INSTALLER QUALIFICATIONS

All systems receiving incentives under the RECPP must be installed by a qualified installer. The following requirements must be submitted by the applicant as part of the reservation request. TEP will verify that the installer meets the following minimum qualifications prior to confirming a reservation request:

- The installer must possess a valid license on file with the Arizona Registrar of Contractors ("AZROC") with a license classification appropriate for the technology being installed. Alternatively, the installer must identify use of a contractor holding an appropriate license on file with the AZROC for the technology being installed. A copy of the AZROC license must be provided as part of the reservation request.

- The installer must possess an Arizona business license that is active and in good standing.
- Installers may request that the above information be retained on file with TEP; however, under this option the installer must certify that the information on file remains current with the submission of each reservation request. Information on file must be renewed yearly.

PROHIBITION OF SYSTEM REMOVAL

Neither the Qualifying System nor any component thereof may be removed by any party until expiration of the applicable Renewable Energy Credit Agreement or the last day of the final month of the final full calendar year of the applicable incentive payment term. If the Qualifying System or any component thereof is removed by any party in violation of this provision, the customer party to the Renewable Energy Credit Agreement shall immediately reimburse TEP for all incentive amounts paid by TEP to customer or on behalf of customer to an authorized third party.

In addition, if a Qualified System is removed, TEP shall monitor that specific customer site to ensure that an additional incentive is not provided for any new distributed renewable energy resource system on that site until the original Renewable Energy Credit Agreement's contracted operational life of the original system has expired.

TEP shall attempt to monitor the number of missing or non-working distributed generation systems and shall summarize its observations in its annual Compliance Report.

ATTACHMENT A

QUALIFICATIONS FOR NON-RESIDENTIAL APPLICATIONS OF BIOMASS/ BIOGAS OR GEOTHERMAL SPACE HEATING

The following equipment qualifications listed are mandatory requirements which must be met at the time of project commissioning to receive a RECPP incentive. The installation guidance is intended to provide consumers with information on installation and operation practices which are most likely to support achieving the system's designed output. Installation guidance is mandated in order for a project to receive a RECPP incentive, as it does reflect both industry and TEP concurrence on those practices which are important for a technology to best achieve the designed output. In the future, additional installation guidance items may be considered for inclusion as part of the equipment qualifications.

TEP acknowledges that many regulations and site-specific requirements may apply to the installation of renewable energy technologies. TEP agrees that no requirement imposed by these technology criteria shall be imposed in conflict with any other governmental requirements. Any RECPP-based requirement, which is in conflict with a site-specific governmental requirement, shall be detailed in the reservation request. All qualifying systems must adhere to the following requirements in addition to the RECPP program requirements:

EQUIPMENT QUALIFICATIONS

1. Biomass/Biogas or geothermal system installations involving a regulated boiler or pressure vessel are required to comply with all Arizona state boiler regulations; provide a qualifying boiler inspection identification number; and keep all applicable permits in good standing.
2. Energy savings and designed output for the system will be verified by submitting either a testing certification for a substantially similar system prepared by a publicly funded laboratory or by submitting an engineering report stamped by a registered professional engineer. The engineering report shall provide a description of the system and major components, design criteria and performance expectations, applicable standards and/or codes, and a brief history of components in similar applications.
3. Energy production for space heating, space cooling and process heating will be calculated as one kWh of energy per 3,415 BTU of useful heat delivered by the system as measured by a dedicated heat delivery measuring meter and used by the building space or process.
4. The system will have a material and labor warranty of at least five years.
5. The system must meet Arizona DEQ environmental standards.

INSTALLATION GUIDANCE

Because of the individual nature of biomass/biogas or geothermal systems, care should be taken to make sure the system complies with all applicable permitting and regulatory requirements including, but not limited to, air emission standards and air permit regulations.

GENERAL QUALIFICATIONS

1. The project must comply with applicable local, state, and federal regulations.
2. Products must be installed according to manufacturers' recommendations.
3. Installations must meet applicable governmental statutes, codes, ordinances, and accepted engineering and installation practices.

4. Systems must be permitted and inspected by the jurisdiction having authority over construction projects in the customer's locale.
5. All major system components must be new and must not have been previously placed in service in any other location or for any other application.
6. All renewable electricity generation systems must include a dedicated performance meter (provided by TEP) which allows for measurement of system energy production. Certain other non-electric renewable energy production systems, noted below, will require customer supplied metering for PBI payment calculation purposes.
7. If the qualifying system is grid-tied, the system must meet Arizona Corporation Commission Interconnection Requirements for Self-Generation Equipment.
See <http://images.edocket.azcc.gov/docketpdf/0000074361.pdf> for these requirements.

ATTACHMENT B

QUALIFICATIONS FOR BIOMASS/ BIOGAS, HYDRO, OR GEOTHERMAL ELECTRIC

The following equipment qualifications listed are mandatory requirements which must be met at the time of project commissioning to receive a RECPP incentive. The installation guidance is intended to provide consumers with information on installation and operation practices which are most likely to support achieving the system's designed output. Installation guidance is mandated in order for a project to receive a RECPP incentive, as it does reflect both industry and TEP concurrence on those practices which are important for a technology to best achieve the designed output. In the future, additional installation guidance items may be considered for inclusion as part of the equipment qualifications.

TEP acknowledges that many regulations and site-specific requirements may apply to the installation of renewable energy technologies. TEP agrees that no requirement imposed by these technology criteria shall be imposed in conflict with any other governmental requirements. Any RECPP-based requirement, which is in conflict with a site-specific governmental requirement, shall be detailed in the reservation request. All qualifying systems must adhere to the following requirements in addition to the RECPP program requirements:

EQUIPMENT QUALIFICATIONS

1. Biomass/Biogas, Hydro or Geothermal system installations involving a regulated boiler or pressure vessel are required to comply with all Arizona state boiler regulations; provide a qualifying boiler inspection identification number; and keep all applicable permits in good standing.
2. System must include a dedicated performance meter to allow for monitoring of the amount of electricity produced.
3. Pre-operational/or pre-commissioning energy savings and design output for the system will be verified by submitting either a testing certification for a substantially similar system prepared by a publicly funded laboratory or by submitting an engineering report stamped by a qualified registered professional engineer. The engineering report shall provide a description of the system and major components, design criteria and performance expectations, applicable standards and/or codes, and a brief history of components in similar applications.
4. The system will have a material and labor warranty of at least five years.
5. The system must meet Arizona DEQ environmental standards.

INSTALLATION GUIDANCE

Because of the individual nature of biomass/biogas hydro or geothermal systems, care should be taken to make sure the system complies with all applicable permitting and regulatory requirements including, but not limited to, air emission standards and air permit regulations.

GENERAL QUALIFICATIONS

1. The project must comply with applicable local, state, and federal regulations.
2. Products must be installed according to manufacturers' recommendations.
3. Installations must meet applicable governmental statutes, codes, ordinances, and accepted engineering and installation practices.
4. Systems must be permitted and inspected by the jurisdiction having authority over construction projects in the customer's locale.

5. All major system components must be new and must not have been previously placed in service in any other location or for any other application.
6. All renewable electricity generation systems must include a dedicated performance meter (provided by TEP) which allows for measurement of system energy production. Certain other non-electric renewable energy production systems, noted below, will require customer supplied metering for PBI payment calculation purposes.
7. If the qualifying system is grid-tied, the system must meet Arizona Corporation Commission Interconnection Requirements for Self-Generation Equipment.
See <http://images.edocket.azcc.gov/docketpdf/0000074361.pdf> for these requirements.

ATTACHMENT C

QUALIFICATIONS FOR SOLAR SPACE COOLING

The following equipment qualifications listed are mandatory requirements which must be met at the time of project commissioning to receive a RECPP incentive. The installation guidance is intended to provide consumers with information on installation and operation practices which are most likely to support achieving the system's designed output. Installation guidance is mandated in order for a project to receive a RECPP incentive, as it does reflect both industry and TEP concurrence on those practices which are important for a technology to best achieve the designed output. In the future, additional installation guidance items may be considered for inclusion as part of the equipment qualifications.

TEP acknowledges that many regulations and site-specific requirements may apply to the installation of renewable energy technologies. TEP agrees that no requirement imposed by these technology criteria shall be imposed in conflict with any other governmental requirements. Any RECPP-based requirement, which is in conflict with a site-specific governmental requirement, shall be detailed in the reservation request. All qualifying systems must adhere to the following requirements in addition to the RECPP program requirements:

EQUIPMENT QUALIFICATIONS

1. The minimum cooling capacity of the system will be 120,000 BTU (10 tons) per hour.
2. Solar collector panels used will have a Solar Rating and Certification Corporation ("SRCC") OG-100 rating or laboratory documentation showing the panel energy output under controlled and replicable test conditions.
3. Energy savings and designed output for the system will be verified by submitting either a testing certification for a substantially similar system prepared by a publicly funded laboratory or by submitting an engineering report stamped by a registered professional engineer. The engineering report shall provide a description of the system and major components, design criteria and performance expectations, applicable standards and/or codes, and a brief history of components in similar applications.
4. System must include a dedicated performance meter to allow for monitoring of the amount of heat input to the thermal cooling device or system. Energy production will be calculated at one kW-hr per 3,415 BTU of metered heat delivered to the thermal cooling device or system.
5. The system will have a material and labor warranty of at least five years.
6. TEP reserves the right to modify standards as technology changes on a case by case basis, pending independent laboratory analysis, Professional Engineer ("PE") stamp, or TEP engineering analysis

INSTALLATION GUIDANCE

1. The horizontal tilt angle of the collector panels should be between 20 and 60 degrees and an azimuth angle should be between +/- 45 degrees of south.
2. All systems should be installed such that the energy collection system is substantially unshaded and should have substantially unobstructed exposure to direct sunlight between the hours of 9:00 a.m. and 3:00 p.m.
3. The system installation should comply with the design manual.

GENERAL QUALIFICATIONS

1. The project must comply with applicable local, state, and federal regulations.
2. Products must be installed according to manufacturers' recommendations.
3. Installations must meet applicable governmental statutes, codes, ordinances, and accepted engineering and installation practices.
4. Systems must be permitted and inspected by the jurisdiction having authority over construction projects in the customer's locale.
5. All major system components must be new and must not have been previously placed in service in any other location or for any other application.
6. All renewable electricity generation systems must include a dedicated performance meter (provided by TEP) which allows for measurement of system energy production. Certain other non-electric renewable energy production systems, noted below, will require customer supplied metering for PBI payment calculation purposes.
7. If the qualifying system is grid-tied, the system must meet Arizona Corporation Commission Interconnection Requirements for Self-Generation Equipment.
See <http://images.edocket.azcc.gov/docketpdf/0000074361.pdf> for these requirements.

TECHNOLOGIES WITHOUT TECHNOLOGY SPECIFIC CRITERIA

Technology specific criteria have not yet been developed for the following qualifying technologies:

- Fuel Cells
- Other

For applicants requesting incentives for these technologies or for applicants requesting installation of a technology with specific project technology criteria, but where some criteria cannot be met, the applicant will need to submit design and output documentation.

Applicants installing these systems will, at a minimum, need to provide an energy savings and designed output report for the system. The report must include either a testing certification for a substantially similar system prepared by a publicly funded laboratory or an engineering report stamped by a qualified registered professional engineer. The engineering report and/or testing certification shall provide a description of the system and major components, design criteria and performance expectations, applicable standards and/or codes, and a brief history of components in similar applications. Additional information may be required as part of the RECPP requirements.

NON-CONFORMING PROJECTS

Non-conforming projects will be identified as the Program evolves. Incentive levels for such projects will be calculated based on TEP engineering analysis, independent laboratory analysis, and/or professional engineering (“PE”) stamps. Non-conforming projects that prove combined economic and renewable energy value will be allowed appropriately calculated incentives within the RECPP.

Appendix 1: Incentive Summary Tables

RECPP – CONFORMING PROJECT INCENTIVE MATRIX

2012 Program Year

| Technology/Application | UP FRONT INCENTIVE ¹ 20-Year REC Agreement | 10-Year REC Agreement ² 10-Year Payment (\$/kWh) | 15-Year REC Agreement ² 15-Year Payment (\$/kWh) | 20-Year REC Agreement ² 20-Year Payment (\$/kWh) |
|---|--|--|--|--|
| BIOMASS/BIOGAS (Electric) | NA | 0.060 | 0.056 | 0.054 |
| BIOMASS/BIOGAS – CHP (Electric) ³ | NA | 0.035 | 0.032 | 0.031 |
| BIOMASS/BIOGAS – CHP (Thermal) ³ | | 0.018 | 0.017 | 0.016 |
| BIOMASS/BIOGAS (thermal) | NA | 0.015 | 0.014 | 0.013 |
| BIOMASS/BIOGAS (cooling) | NA | 0.032 | 0.030 | 0.029 |
| DAYLIGHTING (Non-Residential) | \$0.18/kWh ⁷ See this note for clarification | NA | NA | NA |
| GEOTHERMAL – (electric) | NA | 0.024 | 0.022 | 0.022 |
| GEOTHERMAL – (thermal) | NA | 0.048 | 0.045 | 0.043 |
| GROUND SOURCE HEAT PUMP – (cooling) | \$500/ton | NA | NA | NA |
| SMALL HYDRO | NA | 0.060 | 0.056 | 0.054 |
| SMALL WIND (grid-tied) ⁴ | \$1.25/Watt AC | NA | NA | NA |
| SOLAR ELECTRIC: | | | | |
| RESIDENTIAL (GRID-TIED) | \$1.75/Watt DC ⁸ | NA | NA | NA |
| NON-RESIDENTIAL (GRID-TIED) 70 kW DC or less | \$1.50/Watt DC ⁸ | NA | NA | NA |
| NON-RESIDENTIAL (GRID-TIED) 71 - 200 kW DC ¹¹ | NA | 0.125 | 0.125 | 0.125 |
| NON-RESIDENTIAL (GRID-TIED) 201- 400 kW DC ¹¹ | NA | 0.105 | 0.105 | 0.105 |
| NON-RESIDENTIAL (GRID-TIED) 401 kW DC and Greater | NA | 0.91 | .091 | 0.91 |
| SOLAR SPACE COOLING ⁵ | NA | 0.090 | 0.085 | 0.080 |
| NON-RESIDENTIAL SOLAR WATER HEATING/SPACE HEATING ^{5,9,10} (400,000 annual kWh output production equivalent or less) | \$0.50/kWh | NA | NA | NA |
| RESIDENTIAL SOLAR WATER/SPACE HEATING ^{6,9,10} | \$0.50/kWh | NA | NA | NA |
| NON-RESIDENTIAL POOL HEATING ¹⁰ | \$0.50/kWh | NA | NA | NA |

Notes:

- 1) Residential projects are eligible for an up front incentive (UFI). UFI payments cannot exceed 50% of the cost of renewable energy equipment.
- 2) Non-residential systems 70 kW AC or less are UFI only. Non-residential greater than 70 kW AC are PBI only. The total of payments under a production based incentive cannot exceed 50% of the project costs for any project.
- 3) The CHP incentives may be used in combination for the appropriate components of one system.
- 4) This UFI applies to a maximum system size of 1 MW.
- 5) The solar space heating and cooling incentives may be used in combination for the appropriate components of one system.
- 6) This category includes both traditional water heating and those systems combined with residential solar water heating used for space heating. Space heating applications require a report detailing energy saving for the complete system.
- 7) Rate applies to measured first five years of energy savings only. Payment is made up-front at beginning of 1st year.
- 8) Some UFI based installations will require an adjustment of the incentive as detailed in the PV Incentive Adjustment Chart.
- 9) Energy savings rating is based on the SRCC OG-300 published rating or the TEP-RECPP Space Heating Calculator. The customer contribution must be a minimum of 15% of the project cost after accounting for and applying all available Federal and State incentives.
- 10) Rate applies to forecast/estimated first year energy savings only.
- 11) REC terms may be negotiated in excess of printed maximums to accommodate for higher initial payments.

Appendix 2: Glossary of Terms

ACC – Arizona Corporation Commission.

AZROC – Arizona Registrar of Contractors.

Applicant – Utility customer of record for the Utility Revenue Meter located at the installation site; a builder of the structure (residential or non-residential) who will reserve and install the Qualifying system; or for an off-grid Qualifying System, the property owner for the installation site located within a Utility's service territory.

Arizona Business License – A business license issued by the ACC.

Cancelled – Reservation Status indicating that a Reservation has been terminated, funding is no longer allocated, and the utility has removed the reservation from the funding queue.

Cancellation – The termination of the Reservation.

Commissioned – Qualifying System certified to be in operation.

Commissioning Package – Written verification signed by the installer and the customer confirming that the system has been installed in conformance with the approved reservation and that the system is ready for operation.

Conforming Project – Any project utilizing a renewable technology listed in Attachment D.

Conformance Inspection – Inspection performed by the utility to verify that the system has been installed and operates in conformance with the Reservation application.

Customer – Utility customer of record for the Utility Revenue Meter located at the installation site or a builder of the structure (residential or non-residential) who will reserve and install the Qualifying System.

Extension – The extension of the Reservation Timeframe.

Installer – The entity or individual responsible for the installation of a qualifying system.

Interconnection Inspection – Inspection performed by the utility to confirm that the system can be safely interconnected to the power grid.

Non-Conforming Project – Non-conforming projects include, but are not limited to, projects with staged completion dates, multi-customer or multi-system projects, projects involving more than one technology, projects requiring new or unique agreement terms, projects with technologies for which qualification standards have not been developed or projects requiring non-standard timeframes.

Performance Based Incentive ("PBI") – Incentive based on a rate per actual kWh output or on equivalent kWh of energy savings.

Project Costs – System Costs plus financing costs.

Proof of Project Advancement – Documentation demonstrating that a project is progressing on schedule and is staged for Commissioning on or before the end of the Reservation Timeframe.

Qualifying System – Distributed renewable energy systems meeting the qualifications for production of qualified Renewable Energy Credits in Arizona acceptable to the Arizona Corporation Commission as they may be defined for affected utilities to meet any renewable energy standards.

Renewable Energy Credit (“REC”) – One Renewable Energy Credit is created for each kWh, or kWh equivalent for non-generating resources, derived from an eligible renewable energy resource. RECs shall include all environmental attributes associated with the production of the eligible renewable energy resource.

Reservation – A dollar amount committed by the utility to fund a project if all program requirements are met.

Reservation Status – Indicator relating to approval or denial of a Reservation request. If a Reservation is approved, the Reservation Status is Reserved. If a Reservation request is denied, the Reservation Status is either Cancelled or Wait Listed.

Reserved – Status indicating the acceptance of a Reservation request.

Reservation Timeframe – The duration of the utility’s funding commitment for a Reservation.

System Costs – Costs associated with the Qualifying System components, direct energy distribution, system control/metering, and standard installation costs directly related to the installation of the Qualifying System.

Up Front Incentive (“UFI”) – One time incentive payment based on system capacity or estimated energy kWh production rather than on measured system output.

Wait List – Status indicating Applicant has met program requirements, but the Utility has insufficient funding to commit to funding the project.

EXHIBIT

"6"



**Renewable Energy Standard and Tariff Surcharge
REST-TS1
Renewable Energy Program Expense Recovery**

A UniSource Energy Company

APPLICABILITY

Mandatory, non-bypassable surcharge applied to all energy consumed by all customers throughout Company's entire electric service area.

RATES

For all energy billed which is supplied by the Company to the customer, the price shall be \$0.007700 per kWh of metered monthly energy consumption on all kWh consumed per meter that month up to and including a monthly cap of:

| | |
|---------------------------------|----------------------|
| For Residential customers: | \$5.00 per month |
| For Small Commercial customers: | \$178.00 per month |
| For Large Commercial customers: | \$1,110.00 per month |
| For Industrial customers: | \$6,130.00 per month |
| For Public Authority | \$200.00 per month |
| For Lighting | \$178.00 per month |

Notes:

1. A Large Commercial customer is one with monthly demand greater or equal to 200 kW but less than 3,000 kW.
2. An Industrial customer is one with monthly demand equal to or greater than 3,000 kW.
3. For non-metered services, the lesser of the load profile or otherwise estimated kWh required to provide the service in question, or the service's contract
4. kWh shall be used in the calculation of the surcharge.

This charge will be a line item on customer bills reading "Renewable Energy Standard Tariff."

RULES AND REGULATIONS

The standard Rules and Regulations of the Company as on file with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

TAX CLAUSE

To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric energy or service sold and/or the volume of energy generated or purchased for sale and/or sold hereunder.

Filed By: Kentton C. Grant
Title: Vice President of Finance and Rates
District: Entire Electric Service Area

Tariff No.: REST-TS1
Effective: January 1, 2012
Page No.: 1 of 1



Renewable Energy Standard and Tariff Surcharge
REST-TS1
Renewable Energy Program Expense Recovery

A UniSource Energy Company

APPLICABILITY

Mandatory, non-bypassable surcharge applied to all energy consumed by all customers throughout Company's entire electric service area.

RATES

For all energy billed which is supplied by the Company to the customer, the price shall be \$0.007700424 per kWh of metered monthly energy consumption on all kWh consumed per meter that month up to and including a monthly cap of:

Table with 2 columns: Customer Type and Rate. Rows include Residential, Small Commercial, Large Commercial, Industrial, Public Authority, and Lighting.

Notes:

- 1. A Large Commercial customer is one with monthly demand greater or equal to 200 kW but less than 3,000 kW.
2. An Industrial customer is one with monthly demand equal to or greater than 3,000 kW.
3. For non-metered services, the lesser of the load profile or otherwise estimated kWh required to provide the service in question, or the service's contract
4. kWh shall be used in the calculation of the surcharge.

This charge will be a line item on customer bills reading "Renewable Energy Standard Tariff."

RULES AND REGULATIONS

The standard Rules and Regulations of the Company as on file with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

TAX CLAUSE

To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric energy or service sold and/or the volume of energy generated or purchased for sale and/or sold hereunder.

Filed By: Kenton C. Grant/ Raymond S. Heyman
Title: Vice President of Finance and Rates/ Senior Vice President
District: Entire Electric Service Area

Tariff No.: REST-TS1
Effective: January 1, 2012
Page No.: 1 of 1

EXHIBIT

"7"



Customer Self-Directed Renewable Energy Option REST-TS2 Renewable Energy Standard Tariff

A UniSource Energy Company

AVAILABILITY

Open to all Eligible Customers as defined at A.A.C. R14-02-1801.H.

APPLICABILITY

Any Eligible Customer that applies to the Company under this program and receives approval shall participate at its option.

PARTICIPATION PROCESS

An Eligible Customer seeking to participate shall submit to the Company a written application that describes the Distributed Renewable Energy (DRE) resources or facilities that it proposes to install and the estimated costs of the project. The Company shall have sixty (60) calendar days to evaluate and respond in writing to the Eligible Customer, either accepting or declining the project. If accepted, the Customer shall be reimbursed up to the actual dollar amounts of customer surcharge paid under the REST-TS1 Tariff in any calendar year in which DRE facilities are installed as part of the accepted project. To qualify for such funds, the Customer shall provide at least half of the funding necessary to complete the project described in the accepted application, and shall provide the Company with sufficient and reasonable written documentation of the project's costs. Customer shall submit their application prior to May 1 of a given year to apply for funding in the following calendar year.

FACILITIES INSTALLED

The maintenance and repair of the facilities installed by a Customer under this program shall be the responsibility of the Customer following completion of the project. In order to be accepted by the Company for reimbursement purposes, the project shall, at a minimum, conform to the Company's System Qualification standards on file with the Commission. (REST Implementation Plan, Renewable Energy Credit Purchase Program – RECPP, Distributed Generation Interconnection Requirements, Net Metering Tariff, Company's Interconnection Manual)

PAYMENTS AND CREDITS

All funds reimbursed by the Company to the Customer for installation of approved DRE facilities shall be paid on an annual basis no later than March 30th of each calendar year. All Renewable Energy Credits derived from a project, including generation and Extra Credit Multipliers, shall become the property of the Company and shall be applied towards the Company's Annual Renewable Energy Requirement as defined in A.A.C. R14-2-1801.B.

RULES AND REGULATIONS

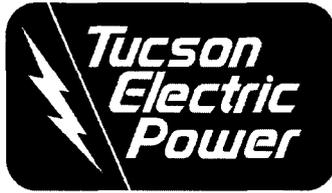
The standard Rules and Regulations of the Company as on file with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

RELATED SCHEDULES

- REST-TS1 - Renewable Energy Program Expense Recovery

Filed By: Kentton C. Grant
Title: Vice President of Finance and Rates
District: Entire Electric Service Area

Tariff No.: REST-TS2
Effective: January 1, 2012
Page No.: 1 of 1



**Customer Self-Directed Renewable Energy Option
REST-TS2
Renewable Energy Standard Tariff**

A UniSource Energy Company

AVAILABILITY

Open to all Eligible Customers as defined at A.A.C. R14-02-1801.H.

APPLICABILITY

Any Eligible Customer that applies to the Company under this program and receives approval shall participate at its option.

PARTICIPATION PROCESS

An Eligible Customer seeking to participate shall submit to the Company a written application that describes the Distributed Renewable Energy (DRE) resources or facilities that it proposes to install and the estimated costs of the project. The Company shall have sixty (60) calendar days to evaluate and respond in writing to the Eligible Customer, either accepting or declining the project. If accepted, the Customer shall be reimbursed up to the actual dollar amounts of customer surcharge paid under the REST-TS1 Tariff in any calendar year in which DRE facilities are installed as part of the accepted project. To qualify for such funds, the Customer shall provide at least half of the funding necessary to complete the project described in the accepted application, and shall provide the Company with sufficient and reasonable written documentation of the project's costs. Customer shall submit their application prior to May 1 of a given year to apply for funding in the following calendar year.

FACILITIES INSTALLED

The maintenance and repair of the facilities installed by a Customer under this program shall be the responsibility of the Customer following completion of the project. In order to be accepted by the Company for reimbursement purposes, the project shall, at a minimum, conform to the Company's System Qualification standards on file with the Commission. (REST Implementation Plan, Renewable Energy Credit Purchase Program – RECPP, Distributed Generation Interconnection Requirements, Net Metering Tariff, Company's Interconnection Manual)

PAYMENTS AND CREDITS

All funds reimbursed by the Company to the Customer for installation of approved DRE facilities shall be paid on an annual basis no later than March 30th of each calendar year. All Renewable Energy Credits derived from a project, including generation and Extra Credit Multipliers, shall become the property of the Company and shall be applied towards the Company's Annual Renewable Energy Requirement as defined in A.A.C. R14-2-1801.B.

RULES AND REGULATIONS

The standard Rules and Regulations of the Company as on file with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

RELATED SCHEDULES

- REST-TS1 - Renewable Energy Program Expense Recovery

Filed By: Kentton C. Grant ~~Raymond S. Heyman~~
Title: Vice President of Finance and Rates ~~Senior Vice President~~
District: Entire Electric Service Area

Tariff No.: REST-TS2
Effective: January 1, 2014
Page No.: 1 of 1

EXHIBIT

"8"

**TEP Exhibit 8
2012 Renewable Energy Standard and Tariff**

Research and Development

In order to support the adoption of renewable energy, Tucson Electric Power Company (“TEP”) dedicates some of its current REST funding towards research and development. The Plan proposes to continue with TEP’s commitment to further renewable energy research by participating in the following projects.

I. Electric Power Research Institute Plan.

TEP is planning to continue its subscription with the Electric Power Research Institute (“EPRI”) in 2012. Previous studies conducted in 2011 and carried forward into 2012, as well as new programs for 2012, will provide necessary data and application information for the implementation of variable generation into utility grids, both for transmission and distribution systems. The total estimated cost of subscription is \$191,000.

A. Program P174: Integration of Distributed Renewables.

1. PS174A: Analysis of Renewable Integration into Distribution.

This project provides analysis of existing distribution issues and looks at future options and concepts for higher penetration of PV generation, storage, and other distributed energy resources (“DER”). It focuses on the distribution system’s readiness, both radial and network, for incremental increases and higher penetration of distributed generation. These are aligned with EPRI’s Green Circuits, Smart Grid, and IntelliGrid programs. The estimated cost for this project is \$29,000.

2. PS174B: Evaluation of Interfaces and Metering.

This project set focuses on end-user-level distributed renewable interface technologies, including advanced metering systems, inverters, controllers, and other related inertie equipment. It evaluates both electrical power interfaces for PV and storage with distribution, and communication interfaces for DER and advanced metering infrastructure (“AMI”) with inverters. It includes development of performance criteria, lab, and field

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testing. The estimated cost for this project is \$17,000.

3. PS174C: Photovoltaic Applications, Operations and Maintenance.

The project set addresses participants interest in best practices for installing, maintaining, and managing distributed PV assets and participants concerns for the reliability of PV systems and inverters that can impact grid voltage and energy support. The scope includes evaluating inverter failure modes and limits, developing accelerated life testing and looking at different configuration effects on output performance and reliability. The estimated cost for this project is \$17,000.

B. Program P18: Electric Transportation

1. PS18A: Plug-In Electric Vehicle Development.

The project will involve the evaluation of plug-in hybrid electric vehicle development and test data. It also will include the development results of advanced battery and powertrain systems for plug-in vehicles, and the use of intelligent vehicle connectivity technologies. The estimated cost for this project is \$15,000.

2. PS18D: Advanced Infrastructure Development for Plug-In Hybrid Electric Vehicles.

This project will involve the discussions of the Infrastructure Working Council, and will also focus on the infrastructure connectivity related to EV's and the on board communication systems. It will also involve the infrastructure review of vehicle charging stations and power systems. The estimated cost for this project is \$24,000.

C. Program P94: Energy Storage.

1. This project provides analysis and strategic planning information on distributed energy resources (both distributed generation and energy storage systems) through an online technology assessment database, annual in-depth technology assessments, and strategic intelligence reports. The project tracks, monitors and summarizes all on-going energy

TEP Exhibit 8
2012 Renewable Energy Standard and Tariff

storage demonstrations. Analysis is undertaken to understand the operational value, costs and benefits, and impacts of energy storage systems. Specific technology evaluations and assessments are prioritized by members; technologies include novel distributed and bulk energy storage systems as well as novel flow battery systems. The project will perform technology assessments of emerging energy storage systems, including zinc-chlorine, NaSO₄ chemistries, new lithium-ion battery chemistries, fuel cells, and advanced ultracapacitors. In addition, analysis will be conducted to assess the value proposition of energy storage and distributed generation (“DG”) systems in current and future smart grid configurations. Also, databases will be developed that maintain the latest cost, performance, trends, and greenhouse gas footprints of energy storage systems. The estimated cost for this project is \$89,000.

II. Transmission VG Integration Study.

TEP will contract with NREL or EPRI to provide continued solar generation resource integration information at a sub-transmission and higher system wide level. The impacts of large VG penetration on TEP's system will be studied, including capacity limitations, operational requirements, and the assessment of TEP's operations relative to incorporating large renewable capacity into the system. Study information from the 2011 Grid Stability Study will be used to model various transmission system penetration levels. The models will support analysis consisting of residential and commercial DG solar penetration up to and including utility scale solar generation systems. NREL or EPRI will model different levels of penetration based on future DG integration over the next 2-5 years. TEP's internal Transmission Planning group will evaluate the various models to determine the impact on system dispatch criteria, regulation, and reserves. This information will also provide the Transmission Planning group with several dynamic models to analyze various intermittency cases with solar applications on the grid. The cost estimate for this program is \$150,000.

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2012 Renewable Energy Standard and Tariff

III. Irvington/Sundt Test Site Plan.

TEP continues to provide training and testing of new solar products at the Irvington/Sundt test yard, where several manufacturers of PV products are represented. TEP is working with the University of Arizona (“U of A”) in tracking and assessing PV product data to determine product longevity, reliability, and applicability to various residential and commercial locations in Tucson. This test site development plan is estimated to cost \$350,000. Below is a list of planned project and testing activities for 2012.

A. Test and compare the following new products of several manufacturers for performance and output characteristics:

1. thin film technologies – fixed PV;
2. silicon crystalline technologies – fixed PV;
3. solon and other independent single and double axis concentrated PV (“CPV”) and PV tracking systems;
4. building integrated PV;
5. battery storage technologies;
6. pole-mounted PV systems; and
7. design and install a new commercial scale hot water system at the TEP carwash facility.

B. Test, study, and/or compare the following products:

1. Prism PV system, solon crystalline modules, Solyndra tube PV, and other various ground mount fixed PV systems in Test Site #1;
2. research and technology development of various Solon products in Test Site #2; compare to two other sites in Italy and Germany for performance;
3. research and technology development in Test Site #3 including:
 - a. advanced and new PV/CPV;
 - b. plan and install civil and electrical infrastructure;

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- c. installation of one or more single axis PV tracker systems for performance testing;
and
 - d. design and install ground mount BIPV systems for performance comparison.
4. research and technology development in Test Site #4 including:
- a. partner with HCPV manufacturers for the installation of new dual axis tracker systems in the range of 100kW to 300kW capacity; and
 - b. pre-commercialization proof of concept for a U of A dual axis CPV system, in partnership with TEP.

IV. AzRise.

The AzRise Global Institute at the U of A conducts fundamental interdisciplinary solar energy research, backed by accurate and realistic economic analyses, for the deployment and practical implementation of solar energy solutions that TEP believes has direct relevance toward supporting the REST goals. TEP's use of REST dollars spent with AzRise as a research partner helps to further the renewable energy market and helps TEP meet its renewable goals. AzRise will be responsible for ongoing data management for the TEP Solar Test Sites, energy storage data evaluation, and ongoing distributed generation production analysis specific to Arizona. These projects represent significant contributions to the local knowledge base that will be required to make the use of solar energy more effective. This project will cost \$250,000.